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MARKETING & MEDIA
DECISIONS

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MEDIA COSTS '88

A BUYER'S MARKET

Strong cost pressures and even stronger agency resistance have put the media in a very tight spot. Inside, the expert's complete guide to next year's media shopping list.

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MARKETING & MEDIA DECISIONS

COVER STORY

MEDIA COSTS, 1988 22

Now more than ever, the media had better have some solid arguments on which to base their ad-rate increases. The fact is, however, many do.

FEATURES

ECONOMIC FORECAST 25

Wall Street experts are cautiously bullish on the prospects for the year ahead, both for the economy and for some individual media.

AS THE GAP NARROWS . . . 33

Ted Bates looks back over the past decade and sees — finally — a moderating trend in CPM increases. Still, the costs continue to outpace inflation, reports their analytical team.

TELEVISION 40

In the beginning, there's the issue of people meters. The confusion in the tv marketplace, though, goes much deeper than that.

CABLE 49

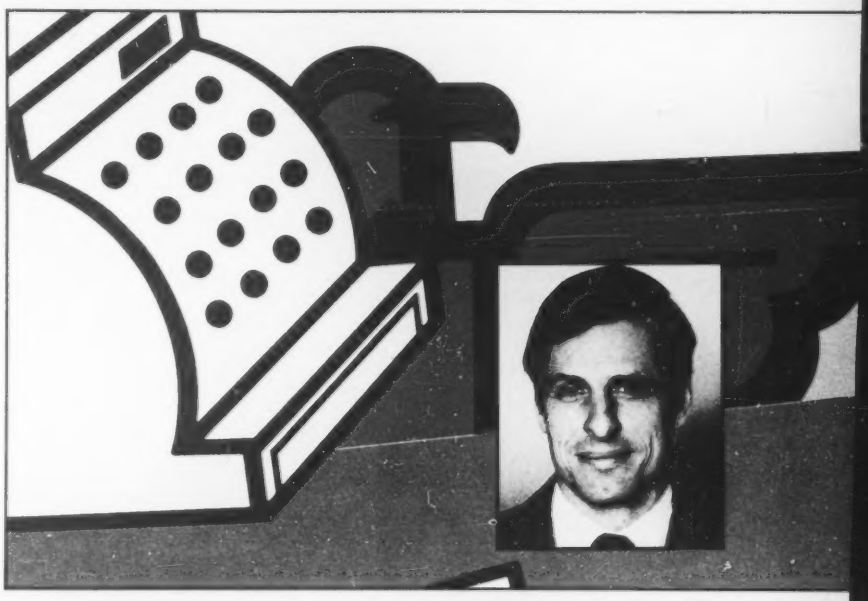
Despite signs of strength from this broadcast alternative, the shadow cast by its mainstream counterpart, plus increased costs, will keep a lid on cable increases.

RADIO 57

The volume has been turned down a bit for network, though spot is keeping the beat.

CONSUMER MAGAZINES 63

Publishers are caught between some sizable cost hikes and a hardened attitude regarding the medium among agency print people.



BUSINESS MAGAZINES 73

The cost of doing business in business books should keep up with the times, but little more.

NEWSPAPERS 83

The price of progress is pinching some publishers, but they're determined to build a bridge to national business.

OUTDOOR 91

The party's over with booze and butts, so the out-of-home industry is looking for, and finding, some healthy alternatives.

YELLOW PAGES 99

Competition continues to benefit the budget-conscious as prices are held in check in many markets.

DIRECT MARKETING 105

It was nice while it lasted, but the hefty postage hike expected next year will mean a corresponding hike in the cost of this option.

BRAND REPORT 144: SPORTS CARS 121

Their fast-paced image contrasts with a low-key approach in marketing these dream machines. In fact, sales seem set on cruise control.

DEPARTMENTS

PRO FILES 4

The power shifts to Washington for the outdoor industry's trade group as Kevin Gottlieb, aide to senators and a professor to boot, takes over.

CREATIVE CONCEPTS 8

What's good for consumers is good for some marketers who attempt to link their products to America's health fixation.

FREEZE FRAME 14

The Cabletelevision Advertising Bureau has designed PC software to help integrate their medium into the early tv planning stages.

August 1987, Vol. 22, No. 8

Cover illustration by Dave Flaherty

PRINT BEAT 17

Where to, Diamandis? . . . Hampel's creative seal at *GH* . . . *Sport* in center court . . . *SI* on base at the *Times* . . . *Penthouse* counts heads.

BROADCAST BEAT 135

Percy thinks national . . . People meters may mean more, not less . . . Commercials' costs climb . . . Radio drives it home.

ECONOMIC EYE 138

An important adjustment to our tv data, and the latest on magazine category spending.

POINT/COUNTERPOINT/POLL 140

The fall of the magazine rate card has both advertisers and their agencies split on the long-term effects.

TOOLS OF THE TRADE 142

The second phase of the Advertising Research Foundation/Association of Business Publishers study confirms that more means more when planning a business-to-business print ad.

SALES PROMOTION 146

Creative thinking has led to intriguing new moves from some of the largest promotion shops and their forward-thinking customers. A look at some of the latest developments.

LAST WORD 152

Samir Husni, author and publisher of the *Guide to New Magazines*, outlines some of the traits that recent successful magazine launches share, based on his ongoing research into consumer publishing.

AS THEY SEE IT

MEDIOLOGY *Ed Papazian* 111

Enough already of casting blame. It's time to impose some order on the conversion to people meters.

TELEVISION *Betsy Frank* 111

It isn't the program that defines a quality buy; it's the audience.

SPOT TV *Garfield Ricketts* 114

The growing number of overnight markets being measured can only help the spot planner's cause.

MAGAZINES *Deborah Solomon* 116

What makes an attractive magazine launch for agency planners? Some answers are offered.

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WHERE TO NEXT?

That's the question media buyers and sellers want answered the most, and it's the reason for this issue. But predicting the future in today's jumbled media world requires the talents of the seer of seers. The last two years have seen such tumult in the way advertisers, agencies and the media conduct business that anyone who proclaims to have The Answer should promptly be shown the door.

With that caveat, we bravely present our best estimates of where media costs are likely to head for major categories and where the pressure points lie. Our projections come from a pretty knowledgeable bunch: We polled almost 200 agency media directors on their calculations for media costs.

According to our best information, the average cost of a media unit bought for 1988 will rise 6.1% over last year. At that time, our sample expected media costs to rise 5.5%. The actual performance, as reported by our media directors this year, was an amazingly low 3.4% increase. The disparity between those numbers — the projection and the result — underscores what a treacherous year 1986-1987 has been for most media sellers.

Supply outstripped demand in several categories — most notably in daytime television. Then too, querulous advertisers, fed up with "automatic" price hikes, took a look at the low level of general inflation and the absence of any major contributing cost increase factor (like postage or paper) affecting media and got very tough. They demanded from their agencies and the media more negotiation and "extras" in return for their business. This new pragmatism can be seen across all categories and particularly in magazines, which have been having a tough time holding to the rate-card tradition.

All of this, meanwhile, was played out against a churning economic backdrop. Lackluster corporate profits, a new sweeping tax law and an unprecedented wave of often unsolicited mergers and acquisitions caused many companies to seek a low profile. One consequence was a dearth of major new and costly product rollouts. Even worse, marketing and advertising budgets in general came under close scrutiny — cutbacks became more the rule than the exception.

+6.1%

The agency and media worlds were being similarly jostled. Mergers and acquisitions in those sectors bred management instability, client antagonism and worrisome debt loads.

Where to next, indeed. After such a chaotic year, why would anyone expect media costs to rise at all? There are several possible explanations. First and foremost, most economic prognosticators foresee a rise in both inflation and interest rates in 1988. Second, many of the major media are bracing for an upward spin in their operating costs. Paper and postage costs, for example, could soar, hurting magazines, newspapers and direct mail the most.

Over on the electronic side, an election and Olympic year could create a strong demand for time. And the advent of people meters has shaken the networks' traditional pricing and dealmaking structure. Last but not least, threatened strikes by various network and production unions and the National Football League could wreak havoc.

Yet if certain costs do seem to be on an upward spiral, there are other, mitigating factors. There is actually more network broadcast time available than ever before in terms of the amount and type of units sold. And there are more options on that side of the business: Both cable and syndication have won new fans with better programing.

Indeed, there are more options available in all media categories. There are scores of highly targeted magazines, greater numbers of Yellow Page competitors than ever, and more telemarketing and sales promotion possibilities. There *is* more than one way to skin the cat.

Furthermore, after all the wrenching of the past two years, the media themselves are in a far more accommodating state of mind. Consumer and business magazines are setting up discount and/or network structures, while newspapers are finally doing something about the rate differential separating national and local prices. Radio, outdoor and cable are selling their regional attributes to national marketers who seem more enamored of the grass-roots approach.

Where to next? All indications are for a better year in terms of firming corporate profits and loosened marketing purse strings. For the media professional, it promises to be an interesting year with everything for sale and everything very negotiable.

Media Cost Rises

	1988 Anticipated	1987 vs. 1986 Actual	1987 vs. 1986 Anticipated	1986 vs.1985 Actual	1986 vs.1985 Anticipated	1985 vs. 1984 Actual	1985 vs. 1984 Anticipated	1984 vs. 1983 Actual	1984 vs. 1983 Anticipated
Average increases—unit cost									
Nighttime network tv	6.0%	3.2%	4.0%	5.9%	7.0%	7.9%	9.2%	10.6%	9.6%
Daytime network tv	0.5	–7.7	–3.8	3.9	6.9	10.5	12.7	11.4	8.1
Spot tv	8.4	5.6	5.5	5.8	7.7	7.6	7.8	9.8	10.9
Network radio	6.4	5.7	5.1	9.1	7.2	7.9	7.3	8.0	9.0
Spot radio	6.0	4.4	4.4	5.6	6.8	6.7	7.4	8.7	8.7
Consumer magazines	5.6	4.3	6.7	7.0	7.7	8.0	8.2	9.1	9.0
Nat'l Sunday magazines	5.6	4.8	5.1	2.9	6.7	8.3	8.3	9.1	7.9
Daily newspapers	6.6	6.5	7.2	7.4	7.9	8.0	8.5	9.0	9.3
Outdoor posters	5.3	4.9	5.3	5.7	7.2	6.5	7.3	8.0	9.8
Business publications	5.4	5.3	6.3	7.6	7.2	6.7	7.6	7.5	7.3

Source: Marketing & Media Decisions

Anticipated Media Cost Movements 1988 vs. 1987 (Average changes)

Medium	Unit Cost	Audience	CPM
Nighttime network tv	6.0%	–1.8%	7.4%
Daytime network tv	0.5	–4.1	5.5
Spot tv	8.4	1.0	8.1
Network radio	6.4	0.4	6.0
Spot radio	6.0	0.6	5.2
Consumer magazines	5.6	0.4	5.3
Nat'l Sunday magazines	5.6	0.5	4.9
Daily newspapers	6.6	0.2	6.3
Outdoor posters	5.3	0.8	4.7
Business publications	5.4	1.0	4.5
Response ranges			
Nighttime network tv	0/+19%	–8/+4%	+1/+14%
Daytime network tv	–12/+9	–12/+2	–2/+12
Spot tv	+4/+20	–2/+5	+4/+15
Network radio	–1/+11	0/+3	–2/+10
Spot radio	+2/+10	0/+2	+3/+8
Consumer magazines	+2/+9	–2/+3	+2/+10
Nat'l Sunday magazines	+1/+8	–3/+5	–2/+9
Daily newspapers	+2/+9	–1/+2	+1/+9
Outdoor posters	+1/+10	–1/+5	0/+7
Business publications	0/+9	–2/+10	–4/+8

Source: Marketing & Media Decisions

Actual Media Cost Movements 1987 vs. 1986 (Average changes)

Medium	Unit Cost	Audience	CPM
Nighttime network tv	3.2%	–1.3%	3.9%
Daytime network tv	–7.7	–3.1	–6.7
Spot tv	5.6	–0.2	5.8
Network radio	5.7	0.0	5.8
Spot radio	4.4	0.0	4.0
Consumer magazines	4.3	0.0	4.7
Nat'l Sunday magazines	4.8	1.0	4.3
Daily newspapers	6.5	0.2	6.7
Outdoor posters	4.9	0.7	4.7
Business publications	5.3	1.1	4.5
Response ranges			
Nighttime network tv	–5/+10%	–8/+1%	–5/+10%
Daytime network tv	–30/+6	–15/+2	–20/+6
Spot tv	+2/+8	–3/+1	+2/+12
Network radio	–1/+15	0/+3	–5/+15
Spot radio	–1/+8	0/+1	–1/+8
Consumer magazines	–8/+9	–9/+3	0/+8
Nat'l Sunday magazines	0/+8	–3/+4	0/+8
Daily newspapers	+2/+9	0/+1	+4/+9
Outdoor posters	+1/+9	0/+1	0/+7
Business publications	+2/+8	–1/+3	–4/+8

Source: Marketing & Media Decisions

A LITTLE BIT OF BLUE SKY

by Paula Schnorbus

Remember the term "cautious optimism"? It may be applied here as economists gaze into the future at the second half of 1987 and the first half of 1988.

Economists see the depreciating dollar as a boon to U.S. exports, the lower costs of which will look pretty good to foreign consumers. At the same time, imports will cost U.S. consumers more, which should make domestically made goods more competitive.

On the other side of the ledger, though, inflation seems to be on the rise. Interest rates are likely to go up as a result.

The following are opinions offered from economists and media analysts, who offer their forecasts on where they believe the economy will go next year and the effects it may have on media costs.

Lee E. Ohanian

Vice president and economist, Security Pacific National Bank

"Real growth should pick up a little to 3% for the second half. That would reflect an improving foreign trade sector," says Ohanian, who anticipates the net export deficit to decline significantly in the latter part of 1987.

"We also expect personal consumption expenditures to increase in the second half and we look for a slight pickup in investment," he continues.

He points to inflation as being a potential problem for the first half of 1988. Ohanian predicts it will rise from its current 4% level to 5% in the second half of this year and grow to 5.5% for the first half of next year, putting pressure on interest rates. "This will result in slower economic growth."

Doug Handler

Director of short-term macro forecasting, Wharton Econometrics

"The first quarter of this year was characterized by a huge amount of inventory growth," says Handler. But since manufacturing demand for goods

L. Ohanian

D. Handler

PROJECTIONS AT A GLANCE

	GNP	Unemployment	CPI	Interest rates (T-bills, 3 months)
Lee E. Ohanian				
Second half '87	3.0%	6.3%	4.8%	6.25%
First half '88	2.5%	6.4%	5.5%	7.0%
Doug Handler				
Second half '87	2.4%	6.5%	4.6%	5.8%
First half '88	3.5%	6.4%	4.6%	6.2%
Steven R. Malin				
Second half '87	2.2%	6.3%	5.6%	6.0%
First half '88	1.2%	6.7%	5.2%	6.1%
Maury N. Harris				
Second half '87	2.75%	6.3%	4.5%	6.0%
First half '88	2 6%	6.3%	4.5%	6.375%
Lacy H. Hunt				
Second half '87	3.1%	6.0%	6.3%	6.2%
First half '88	3.2%	5.9%	7.2%	7.0%

is "relatively weak, we'll have to work off these inventories on the production side rather than through increased demand. That spells low growth rates for the second and third quarters," he affirms.

Some of this high inventory, he points out, stems from "car companies trying to keep stock high as a hedge against strikes." A "relatively" modest auto strike may be in the offing in the third quarter, says Handler.

S. Malin

M. Harris

The drop in the dollar, says Handler, is pushing down the cost of U.S. goods for foreign consumers. Meanwhile, the cost of imports is going up, making foreign goods less attractive to U.S. consumers. "This phenomenon should benefit U.S. manufacturers and retailers and contribute positively to the GNP," says Handler.

Wharton's forecast for inflation is that it will remain at moderate levels, an average 4.6% for next year. The forecast doesn't call for a "major retrenchment" in consumer demand, even keeping in mind high debt levels. "There will be no binges or major cutbacks," comments Handler. "Spending should be pretty steady." Small increases in investment are also expected, most likely in the computer and office equipment areas.

Steven R. Malin

Senior economist, Economic Analysis Program, The Conference Board

"The net exports of goods and services should see significant improvement as we move deeper and deeper into 1988," says Malin.

"The second half of the year will be tempered by some mild increase in inflation," he thinks. But he adds that "early on in (Alan) Greenspan's tenure as chairman of the Federal Reserve Board, he will have to show he is someone who is hawkish on inflation," which could lead to a "very modest tightening in monetary policy during the second half of this year." Malin also notes that "there are no spending increases going on in the federal budget." The sluggishness in money supply growth and a "creeping up" in interest rates could dampen some economic activity.

He foresees some weakening in residential construction. He also voices concern about the high debt burdens of consumers and the sluggish growth in personal income.

Maury N. Harris

Chief economist, PaineWebber Inc.

"The economy is switching engines right now," says Harris. "Consumer spending is slowing down and the housing sector is tailing off." What's picking up for the time being is business spending on inventories and capital equipment. This is happening, opines Harris, because of some turnaround in the trade balance.

This is a good thing, notes Harris, since the growth rate of consumer spending is slowing down. The reason for that is simple, he says. "If they're not buying as many houses, they don't need as much in the way of furniture and appliances. Also, consumer real income growth has been pretty weak recently," he finds.

The strength of the dollar should rope foreigners into buying lower-costing U.S. products and deter U.S. consumers from buying imports.

The really interesting thing about the economy, muses Harris, is that after all these years, "we're now reversing course and going through a period where domestic output will be growing faster than domestic demand."

Lacy H. Hunt

Executive vice president and chief economist, Carroll, McEntee & McGinley Inc.

"We're going to see the economy approach full employment, and I see this leading to increased inflationary pressures and some further upward movement in interest rates," says Hunt.

"I think that the dynamic component of the economy is going to be the business sector," predicts Hunt. "Corporate profits will continue to gain strongly, and we will see an upswing in capital spending, the first big one since 1984."

Hunt says the consumer sector is expected to be "relatively tranquil," growing at about a 2% rate. He notes that during the first half, it only grew at a half-percent rate.

"But a lot of that difficulty in the consumer sector was from the tax law changes, which resulted in a big decline in January. That will not replay in the second half," says Hunt.

MEDIA ANALYSTS

R. Joseph Fuchs

Managing director, media and entertainment analyst, Kidder, Peabody & Co.

"Across the board we continue to see advertising expenditure growth exceeding nominal GNP gains," states Fuchs. "We see the greatest strength coming from the local sector, with the national environment continuing to be under pressure both from the advertiser and the dramatically increased competitive environment in television and magazines."

Fuchs goes on to add that in the "newspaper business, the underlying strength has remained very solid throughout 1986 and is showing some modest acceleration in 1987. The sec-

tor is growing in direct response to the health of the individual local market economies."

The retail component of newspaper advertising should step up from 1986's 6.5% growth rate to 7-to-8% gains in both 1987 and '88. Gains in classified linage should advance to the 8-to-10% region in 1987, with a more modest rise of 7% forecast for 1988, suggests Fuchs. He adds that newspaper pricing in general will probably move up some 6% to 7%. "Basically, the industry continues to price ahead of inflation and, given the strengths of the local advertising environment, it is experiencing 1% to 3% real growth," figures Fuchs.

J. Fuchs

B. Kaplan

Meanwhile, he adds, "The magazine business continues to feel pressure. A highly competitive pricing structure is being introduced in the women's book segment where pricing is increasingly looking like the supply/demand commodity pricing of the televison business," comments Fuchs. "We see magazine advertising in total being up around 4% this year and in the 4-to-5% range for 1988."

Barry A. Kaplan

Vice president, media analyst, Goldman, Sachs & Co.

"I see a very good advertising environment for the next 18 months," says Kaplan. "I'm pretty optimistic."

For the 1987-88 season, Kaplan thinks network television will see revenue growth of 6% to 7%, which is "higher than last year because upfront will be better." He cites the Olympics, elections, inflation and an improving economy as the contributing factors.

Although spot was weak in the first half of 1987, Kaplan says it should post 8% to 9% increases during the 1987-88 season. Local spot is likely to advance in the 10% zone, syndicated barter could rise 13% to 14% and Kaplan pegs cable for a 15%-plus uptick.

Dennis McAlpine

Vice president, media analyst, Oppenheimer & Co.

"Broadcast is having a peculiar year because of the presidential/Olympics experience," says McAlpine of the 1987-88 season. "Normally, you've seen double-digit revenue increases in virtually all sectors because of (the quadrennial year)."

Cable networks and barter syndication will show relatively big rate increases because they are coming from a very small base, he says. Regarding broadcast, however, "I'm somewhat pessimistic, I guess," says McAlpine. "I think upfront network may not be quite as positive as people are looking for. It looks like it may be as high as 10% ahead initially, and that will probably drop down to 6% to 7% in unit price increases once it's all counted."

He adds that "the barter market, which seems to be pretty well sold out already on their upfront, looks like it's up 10% to 15%, primarily for the better shows." Cable tv networks as well seem to "running in the 15-to-20%-ahead area," says McAlpine.

"Radio looks like its holding its own," McAlpine says, adding that there aren't any big increases so far, "but we're really not into their upfront. That will come later on this year after we get into the fall."

Advertising expenditures' greatest strength will come from the local sector, says Fuchs.

John Tinker

Media analyst, Morgan Stanley & Co.

"Cable will do reasonably well because penetration rates are increasing. They're still very cheap," says Tinker. But, he adds, "up to now, it's been very difficult to sell it to the advertising community. The whole strength of going on a network is that it's one buy and it hits most of the country, in comparison to trying to deal with a lot of different, separate cable programs and services that cause a lot of problems," explains Tinker.

D. McAlpine

J. Morton

At the local level, Tinker believes cable will benefit from the growth of interconnects, or a group of cable operators who get together to sell time to one buyer on a number of different systems. He predicts that revenues as well as media prices should grow 10% in the last six months of the year and another 10% in the first half of 1988.

John Morton

Newspaper analyst, Morton Newspaper Research, Lynch, Jones & Ryan

"Most newspaper companies are raising advertising rates 6% to 8% this year," says Morton. "Part of that is because of the newsprint price increase, which went into effect in July; part is due to inflation and circulation growth; and another part is just their ability to raise prices," says Morton of the hikes.

"The average rate increase is expected to be about the same in '88. We expect revenues to increase in the newspaper industry probably about 8% this year. The bulk of that will come from advertising and some also from circulation," he explains. ■

AS THE GAP NARROWS...

by Deborah Ellis
Supervisor,
Media Information
and Analysis Division,
Ted Bates & Company

The past year has been an eventful one for those in the advertising business. Buyouts of the major networks and mergers of major advertising agencies and advertisers contributed to a chaotic media marketplace. In addition, fear of the new tax laws and a low inflation rate fostered a conservative economic climate that led to constrained advertising budgets.

As the following Ted Bates analysis shows, advertising budgets on average were increased in 1986, but at levels much lower than in past years. Indeed, the percentage of total marketing budgets spent on promotional activities is on the rise. Some industry sources estimate that, in 1970, approximately 40% was spent on promotions and the balance in traditional ad vehicles. Today, according to these same sources, that ratio has been reversed, with promotion now accounting for 60%. Advertisers are questioning the performance of each ad dollar.

Inflation in 1986 — at 1.9% — was at its lowest level in twenty-one years. After several years of almost no response to moderate inflationary pressure, most media elements in '86 finally showed some limited response (Exhibit I). Indeed, six media elements showed lower CPM increases than the previous year's, while the remaining three matched their previous year's CPM increase. Despite this limited response, the overall picture was still disappointing. While three media elements showed increases lower than inflation's, the remaining six increased at rates at least double that of the CPI.

Economic and market conditions prevalent in 1986 had a major impact on television, in particular daytime network television. After years of media CPM increases well in excess of inflation, network television finally buckled under the pressure and grew at levels lower than inflation.

- Daytime network television dropped considerably and experienced a CPM decrease of 2%.
- Evening network television showed no CPM increase in 1986.
- Spot tv was not as affected by disinflation as network. Its CPM increase declined slightly to 5%.

The radio media elements saw no change from the previous year. Network again posted a 6% CPM increase, while spot radio maintained 1985's in-

EXHIBIT I
Yearly Percent Increases In CPM

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Est 1987*
Broadcast												
Daytime Network TV	25	29	8	5	11	7	9	5	9	15	−2	−13
Evening Network TV	8	26	9	12	14	7	24	7	15	10	0	9
Spot TV	25	5	0	9	8	5	9	8	11	6	5	2
Network Radio	10	9	7	6	5	8	7	10	10	6	6	8
Spot Radio	12	9	5	5	7	7	6	7	7	5	5	5
Print												
Magazines	2	9	9	8	12	12	11	8	8	8	6	6
Supplements	3	19	2	9	9	11	12	5	6	4	−11	5
Newspapers	10	9	8	8	10	13	10	10	9	7	7	7
Outdoor												
Posters	6	9	11	12	10	9	11	6	9	6	5	5
CPI	5.8	6.5	7.7	11.3	13.5	10.4	6.1	3.2	4.3	3.6	1.9	3.1

*These estimates represent a weighted average reflecting upfront and scatter market.

EXHIBIT II
Compounded Yearly CPM Increases
Base Year 1981

	1981	1982	1983	1984	1985	1986	1987	Annual Avg. Growth
Broadcast								
Daytime Network TV	100	109	114	125	143	140	122	3.5
Evening Network TV	100	124	133	153	168	168	183	10.4
Spot TV	100	109	118	131	139	146	149	6.7
Network Radio	100	107	118	130	138	146	158	7.9
Spot Radio	100	106	113	121	127	133	140	5.8
Print								
Magazines	100	111	120	130	140	148	157	7.8
Supplements	100	112	118	125	130	116	122	3.5
Newspapers	100	110	121	132	141	151	162	8.4
Outdoor	100	111	118	129	137	144	151	7.2
CPI	100	106	109	114	118	120	124	3.6

crease of 5%.

The print media also exhibited a more moderate growth year in 1986.

- Magazines increased at a lower rate — 6% — than in 1985.
- Supplements, reflecting the after-effects of mergers, posted a substantial decline in growth to a negative 11%.
- Newspapers showed no change, maintaining a 7% CPM increase.

Outdoor reduced growth slightly over 1985 to a 5% CPM.

1987

Inflation is expected to rise in 1987 to 3.1%, still well within the range established over the past few years. The majority of examined media elements, however, are not expected to reflect this continuing disinflation trend.

The television components will be moving in different directions:

- For the second year, daytime network will continue declining, with a 13% CPM decrease. Clearly, daytime is going through difficult times.
- Evening network television will bounce back from its flat performance to a 9% CPM increase.
- Spot television will show a very moderate growth rate of 2%, the only other media element expected to grow at a rate lower than inflation.

EXHIBIT III
Total Advertising Volume and Gross National Product

Year	Ad Volume Million	Ad Volume % Change	GNP Billions	GNP % Change	Ad Volume as % of GNP
1981	60,430	13	3,052.6	12	1.98
1982	66,580	10	3,166.0	4	2.10
1983	75,850	14	3,405.7	8	2.23
1984	87,820	16	3,765.0	10	2.33
1985	94,750	8	3,998.1	6	2.37
1986 (prel)	101,910	8	4,191.1	5	2.43
1987 (est)	110,000	8	4,453.4	6	2.47

Radio will continue along at a fairly steady pace with network radio increasing two points to an 8% increase and spot radio maintaining a 5% increase for the third consecutive year.

The print media elements will also exhibit similar growth patterns to 1986, with the exception of supplements.

- Magazines and newspapers will maintain their 1986 CPM growth levels of 6% and 7%, respectively.
- Supplements will recover after a difficult year and increase to a 5% CPM increase.

Outdoor will continue to show a moderate CPM growth rate of 5%.

HISTORICAL TRENDS

There are clearly two distinct periods of inflation — one where inflation rose to double-digit levels and another where inflation moderated to its lowest level in twenty-one years. This analysis will focus then on this period of continuous moderate inflation.

The CPI for most of the 1980's has hovered in the 3-4% range. Despite this moderating trend, media CPM's as a

rule, have not followed suit. They have continued to rise each year far in excess of the rate of inflation. It is interesting to note that the last time inflation was as low as the 1986 level — 1.7% in 1965 — the examined media elements that year increased at levels on a par with inflation. The highest CPM increase that year was only 4%, and the majority of media elements examined remained below inflation.

The overall effect of media CPM's runaway growth can be seen in Exhibit II. Almost all elements examined show an annual average growth rate far in excess of inflation's. The only two exceptions — daytime network television and supplements — grew at rates comparable to inflation only because of CPM reversals in the last two years.

While daytime network television grew at a pace comparable to inflation — 3.5% versus 3.6% — evening network television showed a different trend and tripled the CPI overall growth rate with a 10.4% increase. Spot television doubled inflation with a 6.7% increase.

Despite yearly CPM increases that were moderate in nature, both radio elements still grew at a faster pace than inflation — 7.9% for network radio and 5.8% for spot radio.

The print media present a mixed bag. Magazines and newspapers were at least double the inflation rate at 7.8% for magazines and 8.4% for newspapers. Supplements, however, paralleled daytime television's and inflation's growth pattern and posted only a 3.5% increase, the result of the atypical year we referred to earlier.

Outdoor doubled the inflation growth rate at a 7.2% increase.

EXHIBIT IV
National Advertising as a Percent of Total Advertising

Year	Total Adv. (millions)	National Adv. (millions)	National as % of Total
1981	60,430	16,641	28
1982	66,580	18,379	28
1983	75,250	20,657	27
1984	87,820	24,106	26
1985	94,750	25,106	26
1986	101,910	26,280	26

EXHIBIT V
National Advertising Expenditures
(1981 = 100)

Year	Net TV	Spot TV	Mag	News/ Supp	Radio	Outdoor
1981	100	100	100	100	100	100
1982	111	116	105	109	106	111
1983	126	129	120	121	120	122
1984	153	147	140	136	137	134
1985	149	160	146	148	153	146
1986	153	173	152	154	161	152

ADVERTISING VOLUME

Advertising volume continues to grow at a rate faster than that of the GNP (Exhibit III). The early part of the 1980's saw double-digit increases in advertising volume, far outdistancing the growth in the GNP. The economic environment of the last few years appears to have led to more frugal advertising budgets — since 1985, each year has seen only an 8% increase in ad volume. This increase, however, was matched by a decline in growth for the GNP. The difference in growth between ad volume and the GNP is now only a few points. In 1986, advertising volume as a percentage of the GNP was 2.43% and next year is expected to be 2.47% of the GNP.

National advertising, as a percentage of total advertising, continues to be in the 26-28% range (Exhibit IV). However, the last few years seem to indicate that this relationship is on a downward trend. (See Exhibit V.)

SUMMARY

The past five years have proven to be a period of moderate inflation. Most media CPM's, however, have risen at a faster pace than that of inflation. If the more moderate CPM increases of 1986 are indicative of a deceleration trend, perhaps the gap between media CPM and CPI increases will narrow.

FOOTNOTE: Tables report trends in index form with 1975, the base year, indexed at 100. These cost estimates are based on the following units:

Nework and spot tv	30 seconds
Network radio	30 seconds
Spot radio	60 seconds
Magazines	one page/four color
Newspapers	milline black and white
Supplements	one page/four color
Outdoor	100 showings through 1981 50 showings 1982-86

Demographics CPM's are based on:

Day network	Women 18+
Evening network	Total persons 2+
Spot tv	Tv households
Radio	Persons 12+
Magazines} Newspapers} Supplements}	Circulation
Outdoor	Total population

Sources for audience information are:

Network and spot tv	A.C. Nielsen
Network radio	"RADAR"
Spot radio	Arbitron
Magazines	Magazine Publishers Assn.
Newspapers	Newspaper Advertising Bureau
Supplements	Standard Rate and Data
Outdoor	Outdoor Bureau and estimates

Advertising expenditure and GNP data are from the Television Bureau of Advertising. Figures for 1987 are Ted Bates' estimates. The CPI is based on increases in yearly average compiled by the Conference Board.

INTO THE GREAT UNKNOWN

As network negotiators throw away the rule book to deal with people meters, the size of the market remains the big question mark.

by Joe Mandese

People meters. Not since the U.S. Treasury abandoned the gold standard has there been a more volatile change in the way an economy is valued.

After 30 years as the "gold standard" of the tv economy, Nielsen next month switches to a people-meter standard that redistributes the ratings wealth, taking from the networks and giving to All Other Television.

It's a transition that has created a lot of anxiety for an industry that normally makes deals based on historical data. Instead, the industry is left with with projections based on "evaluation" data that are unlikely to represent viewing this fall.

All this is making for a nerve-rattling upfront season as buyers and sellers negotiate for the bulk of next year's prime-time commercial space. At the same time, buyers must reckon with the consequences of a presidential election year, the Olympics and the threat of strikes by the Directors Guild of America and the National Football League.

But the people-meter controversy has been the one really gumming up the works. Since Nielsen's people-meter evaluation data generally shows lower ratings for network shows than does the current meter/diary system, the networks have been reluctant to make deals based on the new ratings service.

Early on, the networks balked at giving advertisers their traditional audience guarantees for upfront deals, but since most major advertisers won't buy upfront time without the guarantees, the networks started 1987 upfront prime-time negotiations with particularly aggressive pricing to protect themselves against a ratings and revenue shortfall later in the season.

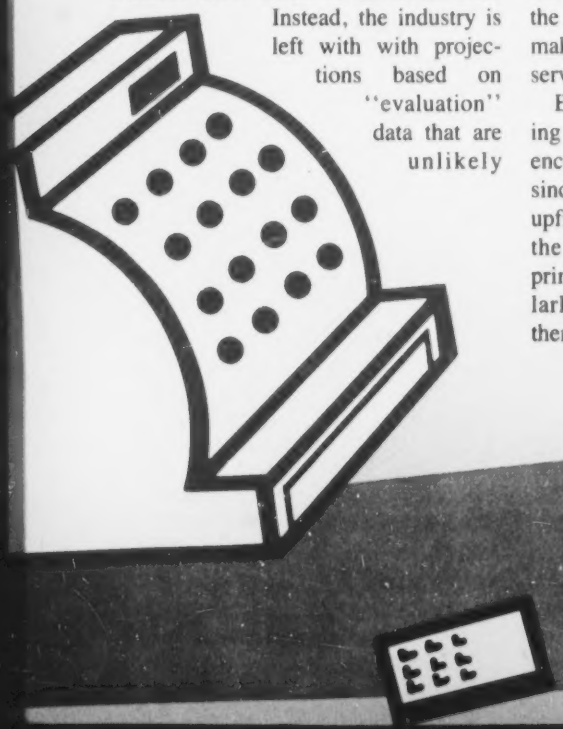
In the first-round of negotiations, the networks asked for prime-time price hikes as high as 30%. This follows a year when the networks' upfront revenues were flat.

"They were smart to come out so aggressively," notes BBDO senior vice president and director of network tv and programing Steve Grubbs. "Last year they started with rates that were 15% above the previous year's upfront and settled on little or no increases."

According to Grubbs, 5-10% of those price increases were built in by the networks to insure themselves against deflated people-meter ratings. The rest was pure posturing.

NBC senior vice president of sales Bob Blackmore figures 1987-88 network rates will rise a whopping 15% to 20%. While he says that "excludes a 10% adjustment for people meters," he adds that "if you go back to any Olympics-elections year, we've al-

ILLUSTRATION BY DAVE FLAHERTY



ways gotten double-digits."

Indeed, the networks made early upfront deals with the major movie studios that called for 30% increases. However, the studios have never been known to hold the line on rates when it comes to securing their coveted prime-time commercial positions.

A more moderate view of network rate increases was offered by ABC executive vice president of sales Jake Keever. Prior to the start of the upfront, Keever estimated network CPM's would rise 7% to 8%, which is exactly where Bozell, Jacobs, Kenyon & Eckhardt executive vice president and national media director Mike Drexler thinks the market will end up.

But an even more dour view is offered by JWT's executive vice president and U.S. director of media services Richard Kostyra. "I would suggest that we are probably looking at increases of 3% to 4% on an inflationary basis," he says.

M&MD's poll of media directors indicates prime-time costs will rise 6% in 1988.

Some indicators put the networks at a distinct negotiating disadvantage. Based on Nielsen data from October 1986 through April 1987, the combined network prime-time rating dropped 3% from a 47.9 meter/diary rating to a 46.4 people-meter rating, according to an analysis by JWT.

With that in mind, buyers and sellers have been scrambling to assess what impact people meters will have on the relationship between the supply of commercial inventory and the demand from marketers' tv budgets.

If people meters report lower levels of network viewing, they reduce the networks' share of gross ratings points (GRP's), which theoretically reduces their supply and has a tightening effect on their marketplace.

But that's just theory. In reality, most buyers know that even if the standard measure of network value (GRP's) changes, the true value remains constant.

"It's the same inventory," explains Larry Larson, media director of the Pillsbury Co. "We just have to adjust the value we thought we were getting for the inventory. If we thought we were getting a 15 rating and it turns out we are doing a 12, we'll just have to make those adjustments. But the real value hasn't changed."

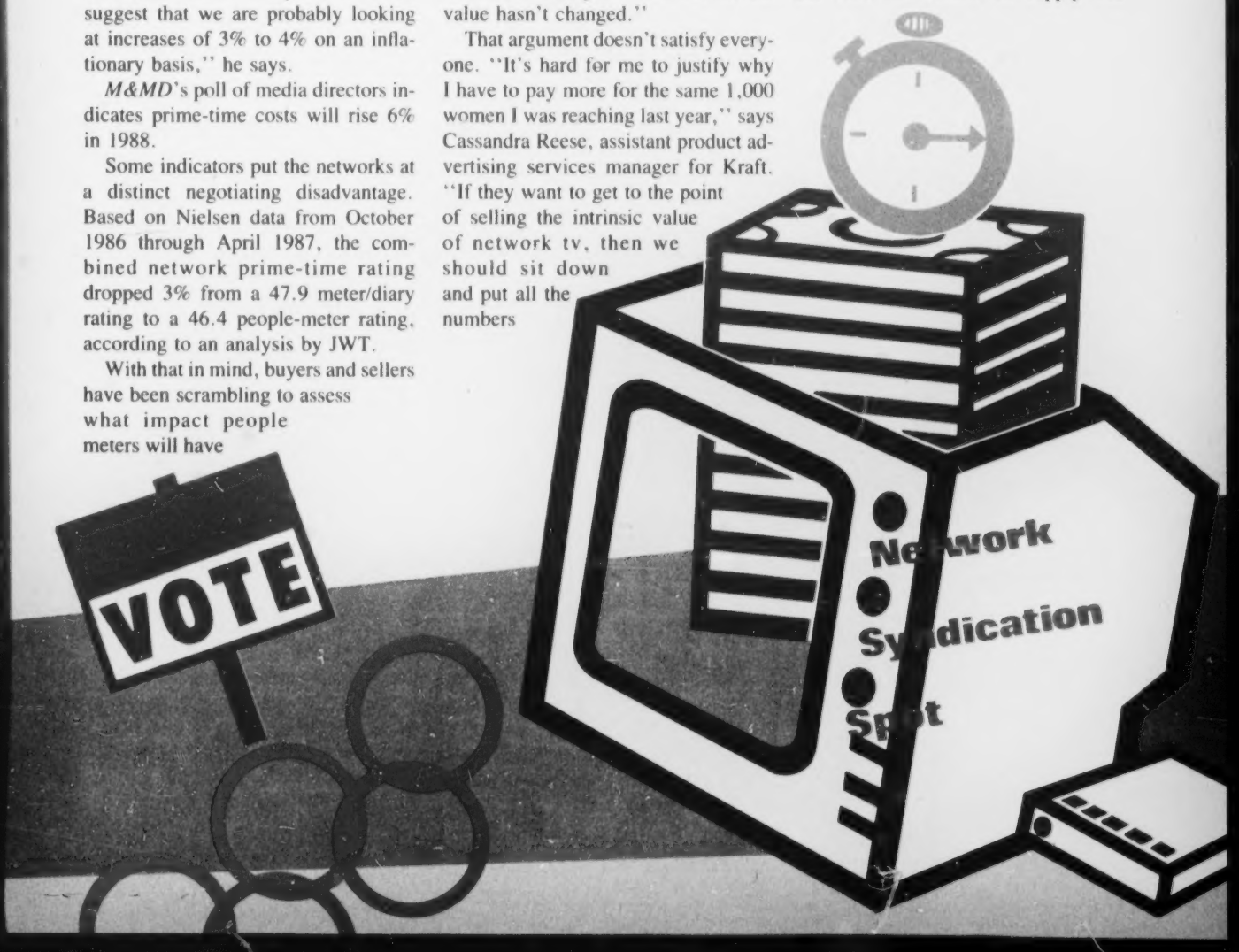
That argument doesn't satisfy everyone. "It's hard for me to justify why I have to pay more for the same 1,000 women I was reaching last year," says Cassandra Reese, assistant product advertising services manager for Kraft. "If they want to get to the point of selling the intrinsic value of network tv, then we should sit down and put all the numbers behind us."

Or as JWT's Kostyra points out, "Those that gain in audience (from the people meters) are going to push us to pay for it." He notes that the people-meter data shows rating increases of as much as 20% on some shows.

So while the value of network tv conceptually should be a simple adjustment under people meters, it will likely be negotiated to a large extent. But the question is, what do the negotiators use as a base?

"For one thing, we're not going to use the old shorthand of percentage increases over the previous year," offers George Mahrlig, director of media services at Campbell Soup.

"What we're trying to do is establish CPM targets as we always do, but ones that reflect the change in methodology and ones that reflect the supply and



demand nature of the marketplace," he explains. "If you just look at the supply side, yes, there is a decrease in GRP's, but if advertisers approach it intelligently, you will find an equal and logical decline on the demand side and it will balance out."

One thing that may moderate the frenzied tv buying atmosphere is that the nets continue to prove that their supply of time isn't really finite. Recently, CBS announced that it will make three and one-half additional minutes of commercial time available each week beginning next fall. The move is expected to increase CBS' share of the $9 billion network marketplace by $50-60 million.

Moreover, all three networks have steadily been increasing their inventory. Since 15-second commercials were introduced (as split-30's) in 1984, the number of commercial units sold by the networks has increased 6% to 284,410 in 1986, according to Broadcast Advertisers Reports. The number of commercial minutes sold, meanwhile, actually decreased 2% to 132,765 in 1986.

While 15-second commercials represented only about 21% of all network commercials in 1986, they are expected to increase to nearly one-third of all network spots in 1987.

NETWORK COMMERCIALS SOLD SINCE 1980

Year	Minutes	Units
1980	123,966	241,076
1981	122,297	238,256
1982	126,987	247,723
1983	134,126	259,842
1984*	135,477	268,230
1985	133,241	271,020
1986	132,765	284,410
	+7%	+17%

* 15 second commercials introduced
Source: Broadcast Advertisers Reports

And while the the supply of the networks' commercial inventory has steadily increased, the demand has been waning. "We haven't had a great big surge or uptick in demand, but the supply has grown," McCann-Erickson senior vice president and director of forecasting Bob Coen noted at his recent mid-year media update.

Analyzing the soft ad demand from key product categories, Coen noted, "It could be that there will be a dramatic shift, but so far I haven't heard any breathing of it and it would be imprudent to assume it's going to come."

Consequently, Coen predicted a moderate increase in network tv advertising, which he said would rise 5% in 1987 to $8.97 billion.

With a bullishness that befits his network's No. 1 prime-time position, NBC's Blackmore adds another $1 billion on that estimate for 1988, bringing the network pie to $10 billion.

Maybe so, but the networks 1987 performance is getting off to a slow start. According to McCann's Coen, the networks gained only 3% during the first four months of 1987. ABC was up the most with a 6% increase that Coen said was due primarily to improvements in their sports programing performance. CBS was flat and NBC was up 4%.

Although there will be some impetus

A CONVERSATION WITH ALEC GERSTER

Alec Gerster is executive vice president/media for Grey Advertising. To reflect the changing dynamics of the national tv scene, Gerster this year changed the title of the agency's annual tv report from "Network 86" to "Television 87"

Characterizing the 1987-88 marketplace: A measure of how disjointed it is, lies the fact that in the middle of all this turmoil, no one even mentions things like the DGA (Directors Guild of America) strike and a potential NFL strike, which in normal years would have been right up there as key marketplace issues.

On the the tight late-night market: Late-night is cyclical. It's a somewhat small daypart and it seems to have alternating years of popularity. In the

popular years, the demand outstrips its relative value to other dayparts and what usually happens is that the next year advertisers will walk away from it. This may be one of the up years.

On the Olympics and elections: While they can be disruptive for short periods of time, they cannot by themselves cause an entire year's worth of inflation. People essentially overstate their impact on the marketplace. The advertisers that buy the Olympics are big advertisers that represent about one-third of network advertising, but their spending outside the Olympics does not go up. You can have large increases in an Olympics and election year, but a lot of that is for reasons other than the the Olympics and the elections, like new product introductions, or category wars. There doesn't seem to be anything like that going on.

On the impact of people meters: The advertising impact of network tv has not changed just because we've changed our measurement methodology. We're just changing the standard we use to measure that value. ■

from the Olympic and election year spending, Coen doesn't think spending will break into the double-digit level unless marketers release a "flood of new products." He is forecasting a 9.5% ad increase for 1988.

BJK&E's Drexler estimates that the Olympics will represent about 9% of the network inventory. While that normally would help tighten the network marketplace, Drexler projects that no more than 20% of the Olympics money will come from incremental advertising budgets, and that advertisers simply will move the funds from other network advertising budgets.

As for the national election advertising spending, a JWT analysis of 1984 campaign spending found that only 340 minutes, or about $35 million worth of political advertising time, aired on the three networks. "And that is spread over the entire year, with only 1.2% of the network inventory being taken up in October, the key political advertising month," notes Kostyra.

While the impact of the Olympics and the elections on the network marketplace is questionable, the networks will have to deal with increased competition for national tv dollars from syndication, cable and a fourth tv network, Fox Broadcasting.

"We're talking about something like 15% lower CPM's for Fox and 25% lower CPM's for syndication and 35%-40% lower CPM's for cable," says BJK&E's Drexler. "Even if the Olympics and elections help tighten the network inventory, there are plenty of places to find relief."

Indeed, Fox Broadcasting expects to write about $75 million in upfront business for next season.

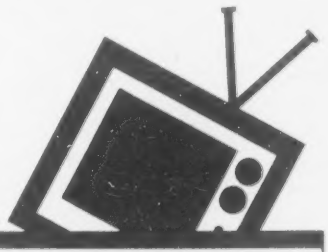
An early syndication market, meanwhile, has moved nearly $500 million in upfront orders.

Add in cable and Drexler says, "We could be talking about more than three-quarters of a billion dollars being written up even before the networks sat down to negotiate."

Despite this sizeable exodus of national tv dollars, some buyers are forecasting a large network upfront that could expand from the $2.5-$2.55 billion in business written last year to about $3 billion this year.

"There's no question that there will be more upfront money this year," says BBDO's Grubbs. "The question is how much of it will be money that in the past was earmarked for scatter and how much of it comes from increased upfront budgets."

According to network buyers, their clients plan to move a greater share of their tv budgets into upfront to protect against the kind of inflated scatter prices they paid during the 1986-87 season, which in many cases were substantially higher than upfront rates. "It's a direct reaction to what happened last year," says Mel Conner, senior vice president/director of network operations for Saatchi & Saatchi



TOP TEN NETWORK TELEVISION ADVERTISERS—1986

FIRST QUARTER 1987

ADVERTISER	1986	Jan/Mar 1987	Jan/Mar 1986	% Change
1. The Procter & Gamble Co.	$451,529,500	$108,717,800	$115,579,100	– 6%
2. Philip Morris Companies, Inc.	342,443,900	77,312,000	56,836,600	+36
3. General Motors Corp.	233,786,000	80,108,100	63,048,000	+27
4. Unilever N.V.	202,371,300	59,385,300	52,749,900	+13
5. McDonald's Corp.	193,001,600	42,902,600	39,564,100	+ 8
6. Ford Motor Co.	188,815,200	36,999,300	52,442,400	–29
7. American Home Products Corp.	185,571,600	55,893,900	59,197,400	– 6
8. Anheuser-Busch Companies, Inc.	177,495,700	47,076,600	40,433,200	+16
9. Kellogg Co.	166,261,000	41,763,700	36,576,300	+14
10. Johnson & Johnson	164,321,700	55,371,200	36,708,600	+51

Source: Television Bureau of Advertising from Broadcast Advertisers Reports data

TOP TEN NATIONAL AND REGIONAL SPOT TELEVISION ADVERTISERS—1986

FIRST QUARTER 1987

ADVERTISER	1986	Jan/Mar 1987	Jan/Mar 1986	% Change
1. The Procter & Gamble Co.	$233,444,500	$39,344,500	$58,262,000	–32%
2. Philip Morris Companies, Inc.	132,181,500	22,433,800	22,375,700	–0–
3. Pepsico, Inc.	123,346,800	20,461,400	20,450,900	–0–
4. General Mills, Inc.	117,210,200	28,724,000	23,965,300	+20
5. Toyota Motor Sales Co., Ltd.	90,284,900	25,050,400	21,862,700	+15
6. Anheuser-Busch Companies	89,093,200	12,147,200	12,843,200	– 5
7. Coca Cola Co.	77,492,000	11,239,300	14,747,200	–24
8. Hasbro, Inc.	72,282,100	949,600	10,803,500	–91
9. Dart & Kraft, Inc.	61,488,900	12,977,800	9,303,400	+39
10. Unilever N.V.	60,692,000	13,904,600	14,885,900	– 7

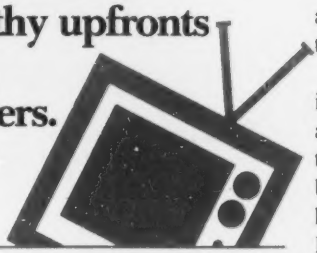
**Includes company and their dealer associations, all products and services*
Source: Television Bureau of Advertising from analysis of Broadcast Advertisers Reports data

DFS. "Scatter was terrible for everyone once we got past the fall. Whenever that happens, people get scared and say they want to put all their money in the upfront. That will automatically pull the upfront from $2.5 of $2.6 billion to $3.0 or $3.1 billion."

Ironically, a big network upfront is what led to a tight scatter market in 1986-87 when demand picked up for the remaining inventory. Moreover, the initial network sales strategy for 1987-88 appears to be to hold back as much time as possible for non-guaranteed scatter sales to minimize the impact of unpredictable people-meter ratings and because the networks believe the marketplace will tighten as the economy picks up later in the year.

Also, the network upfront is unlikely to grow to such proportions if the networks maintain their aggressive pricing position. "If the networks attempt to be that aggressive, then the battle will be fought in the scatter market," says BJK&E's Drexler. "There will be less money than expected," says Peter Chrisanthopoulos, president of RJR Nabisco Broadcast, who predicts the network upfront will grow only slightly to about $2.6 billion.

The market can't support both healthy upfronts and scatters.



Regardless of the exact ratios of upfront and scatter, buyers are expecting overall network prime-time price increases to be moderate.

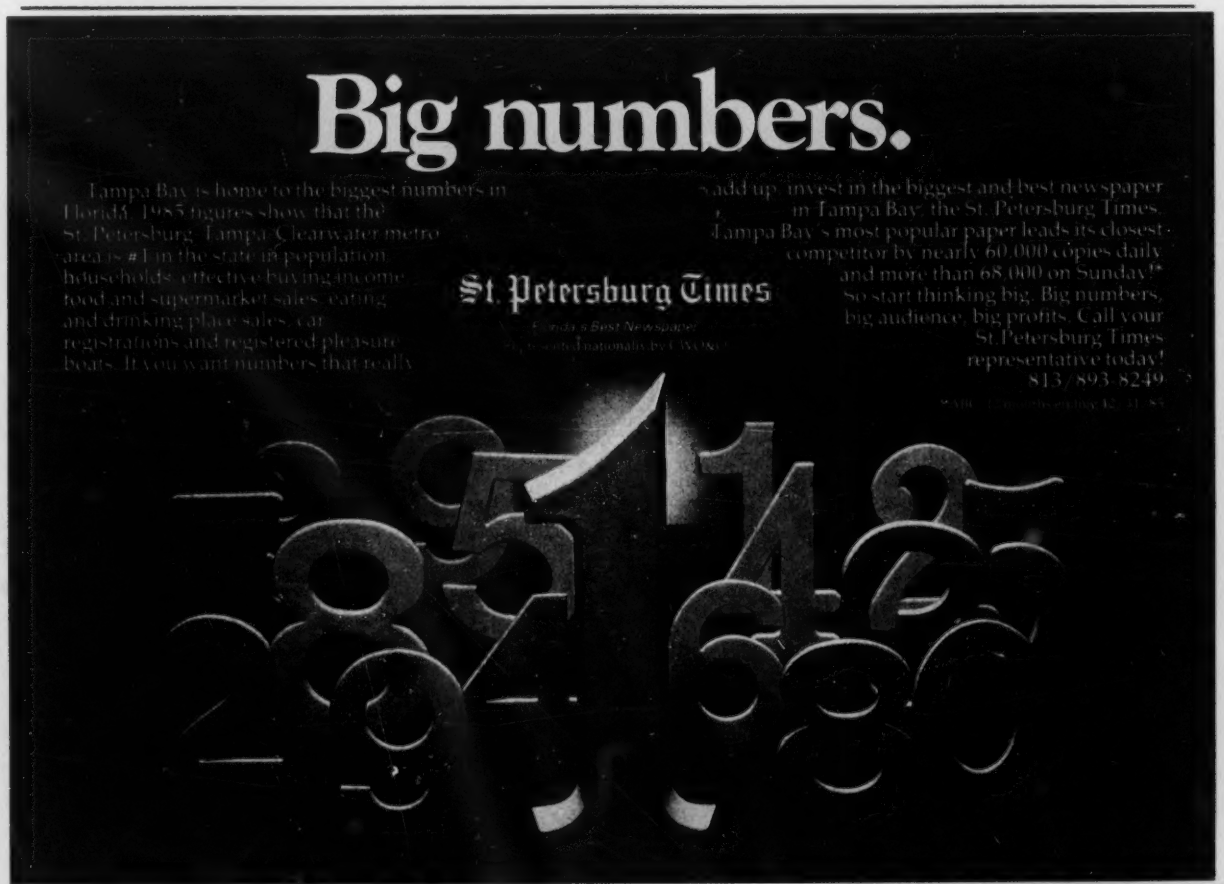
"I don't think the network marketplace is strong enough to support both healthy upfronts and scatters," explains Grey Advertising executive vice president/media Alec Gerster. "You can't have both unless you've got a major turnaround in network demand. And it doesn't seem to be there."

Meanwhile, the upfront performance of other network dayparts appears to be a mixed bag.

Daytime continues to be soft as ratings for the daypart continue to plunge and as buyers convert larger shares of their daytime budgets into :15's. "The big question with daytime is exactly how soft will it be," says Campbell's Mahrlig.

On the other hand, he notes that late-night prices are sky-rocketing because of increased demand from the beverage category. Demand is also up because people meters generally report higher viewing levels for late-night than does the current ratings system. "The numbers are a lot higher on people meters, so even to show a minimal CPM increase, rates will have to be up significantly," explains BBDO's Grubbs, noting that buyers are bracing for 30% increases in the daypart.

"There's a whole price shift going



on for packaged-goods advertisers in late-night," adds Mahrlig. "Campbell's has been in the daypart for a long time and now we're being pushed out."

Aside from overall advertising demand, there are several factors that could affect the strength of the scatter market once all the upfront smoke clears.

Looming big in the minds of buyers are overlooked issues like the threat of strikes by the Directors Guild of America and the NFL, both of which could send the market topsy-turvy, according to Grey's Gerster.

Since the networks haven't filled their program inventory, the DGA strike would wreak havoc by forcing the networks to run less valuable reruns.

How the networks would fill the inventory left vacant by an NFL strike is of equal concern, especially since it would be hard to find alternative programing that delivers the same demographic skew.

And network planners don't even want to guess at what would happen if the Summer Olympics were to get a last-minute change of venue due to political unrest in Seoul.

SYNDICATION

While the impact of people meters was being debated in the network marketplace, barter syndicators took advantage by writing record amounts of upfront business from national tv advertisers.

"People were ready to move and the networks were playing cat and mouse with advertisers over people meters," explains Mike Weiden, executive vice president/advertiser sales of LBS Communications.

By most estimates, nearly $500 million in upfront syndication business was written before the networks began negotiating in earnest.

"Fear of the people meter has convinced advertisers that, now more than

Syndication profited from the debate over people meters.

ever, syndication is the place to be," pitches Karl Kuechenmeister, executive vice president/media sales of Lorimar-Telepictures. "They're not sure what they're going to be getting from the networks, and we're a good place for them to hedge their bets."

Indeed, most syndicated shows should benefit from people meters. This is because most of their clearances come from independent stations, whose share of ratings are expected to improve with the new system.

But the key reason so much upfront money went to syndication is because syndicators were willing to make deals on terms that advertisers are used to. "We've made all our adjustments to people meters and we're ready to live with them," explains Group W vice president media Dan Cosgrove, who is also president of the Advertiser Syndicated Television Association.

According to Coen's forecast, syndication spending will grow 16% to $645 million in 1987, the biggest increase of any medium. But due to the record upfront business, Cosgrove thinks 1987 syndication spending actually will top $700 million.

Unlike the tough year syndicators faced during the 1986-87 season when a soft network market caused syndicators to slash prices, syndication is expected to benefit significantly by the aggressive early pricing from the networks.

Cosgrove estimates that barter time will get increases of 5-10%, depending on the daypart and the program. Although most of the barter inventory has already moved, International Advertising Sales president Brian Byrne predicts there could be a "second round"

PROFILE

There are 106 million of them.

to the syndication upfront if the networks get too aggressive with their pricing. "At some point we start to look like a better deal," explains Byrne. Adds Cosgrove, "Those who keep a little back for scatter may be wise if the Olympics and elections tighten up the network inventory."

SPOT

Unlike network tv, spot is expected to be influenced significantly by both the Olympics and the elections.

"To me, that's all that counts. Who cares about the rest," says Laura Silton, senior vice president/general manager of local broadcast at McCann-Erickson. "I don't know if budgets are going to be up this year, so the big question is, is political advertising going to save the stations?"

According to the Television Bureau of Advertising, political advertising contributed $161.2 million to the spot marketplace in 1986. With a wide-open elections in both the Democratic and Republican parties, buyers expect 1987 primary spending to add to that.

"A wide-open election on both sides could play havoc on the marketplace," concedes Young & Rubicam senior vice president/director of local broadcasting Gary Pranzo.

But Katz Television president Peter Goulazian is a bit more conservative, noting that it will be hard to match the local political spending that occurred in 1986.

"I'm going to be conservative and estimate a 5% gain for the all of 1987," says Goulazian.

While Goulazian's 1987 estimate is slightly lower than the 6% spot increase to $6.97 billion forecasted by McCann's Coen, Goulazian says he is pretty optimistic about 1988, which he says "will see a solid double-digit increase of about 11%."

Of course, some markets will be stronger than others. At the moment, the West Coast markets are still considerably tight, while the Texas markets still are suffering from the oil economy. The rest of the country is considered moderate, according to most buyers, with some tight spots, including Florida.

But while the local Florida economy remains strong for local sales, buyers predict a boycott by national advertisers on the state's new advertising tax will have a damaging impact on the state's share of national spot dollars.

Although spot tv is exempt from the people-meter controversy until Nielsen begins wiring local markets in 1989, some think spot could benefit indirectly by the inflation people meters will cause on network CPM's.

"Spot will benefit from unaware comparisons of spot CPM's and network CPM's," explains JWT's Kostyra. "The spot CPM continues to have the diary inflation built into it. To those who don't take into account the different methodologies, spot could look more attractive." ■

DOG FOOD

Woman's World THE WOMAN'S WEEKLY

Both Simmons* and MRI* confirm it. Woman's World gives you a greater percentage of women who are the heaviest buyers of dog food—greater than the Seven Sisters. And in case Fido's still hungry, Woman's World's numbers for dog biscuits and treats are just as good. Ready to be the client's pet? Call us at 212-953-3344.

*1986 SMRB, Fall 1986 MRI

Unique every week

IT'S STILL FOLLOW THE LEADER

The cable nets still fall under the shadow of broadcast when it comes to pricing their time.

by Rich Zahradnik

Cable is as broadcast does. That convenient rule of thumb about cable CPM's has been true from the cable networks' early days, and remains true today.

Agencies expect to pay a CPM for cable that is at least 30% to 35% below that of the broadcast networks. So, with broadcast CPM's on the rise in the next year, the cable networks can look to reap gains, but not as large as the big three broadcasters, agree most agency executives and cable network sales managers.

"There are very few media plans that call for use of just cable television," explains Thomas Winner, senior vice president and media director at William Esty Company. "Due to its penetration — the fact that it's only in half of the country — that really relegates cable to a secondary media status."

Adds David Lerner, vice president and broadcast supervisor at FCB/Leber Katz Partners, cable's "value remains in a certain proportion to what you pay for other media, keeping in mind what your clients use it for, whether it's just cheap frequency for some or to buy certain programing for others."

While there seems some general agreement that cable will eke out increases this year — primarily because network is seeing cost hikes — there remain some difference over the size of the potential increases. The forecasts range from 5% to 15%.

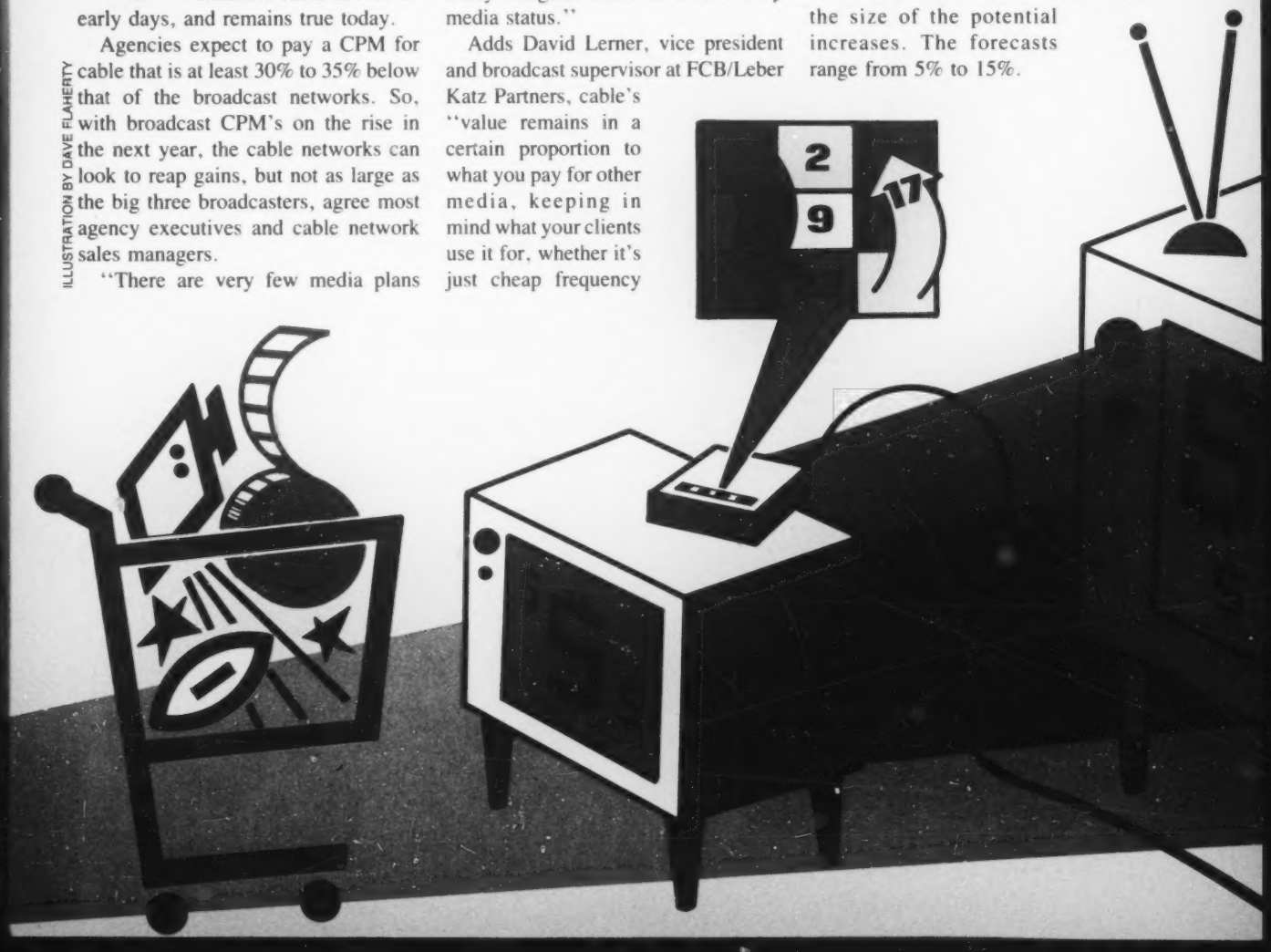


ILLUSTRATION BY DAVE FLAHERTY

Doug Greenlaw, sales vice president for the CBN Cable Network, says, "Cable CPM's will probably remain 30% to 35% below the over-the-air networks. And that, I would suggest, will be the case for the next year mainly because we are still the network stepchild. We're subject to what that 800-pound gorilla does, except that animal only weighs 650 pounds now," Greenlaw jokes.

Overall, he expects CPM's for cable to remain flat over the next year, though he adds that, as in past years, the services will continue to push up their revenues, penetration and audience ratings. Indeed, national advertisers' cable spending is expected to grow by 10% through the end of this year to $800 million.

On the agency side, Winner sees a 6% increase in cable CPM's, a figure that matches the expectations of several other media planners. Suzanne Shawn, Campbell-Ewald's vice president for network and new technologies, finds "some of the cable networks have had a tremendous year this year. I think they may be banking on that. I see some new productions, and I see the networks spending a lot on off-network (programing). They're going to want to get that back from someone."

Lerner is the bear in the group. "They probably feel they're going up," he says of the networks, adding simply, "I don't."

Unlike Greenlaw at CBN, executives at both CNN and Lifetime forecast what are, for cable, fairly large cost increases. Lifetime sales vice president Douglas McCormick forecasts a 15-to-20% increase, while CNN sales vice president Joe Uva pegs growth in the 10-to-15% range.

The differing estimates have much to do with the time-honored dance performed around the media negotiating table. Still, the media directors say they are cognizant of cable's efforts to move forward, particularly in light of the past year's high visibility campaign to buy or create programing with a new and special luster.

The very economics of two of the year's benchmark programing deals clearly illustrate, though, why agencies and clients don't feel compelled to pay higher CPM's to help foot the bill for better shows on cable. Ted Turner spent more than $1 billion to buy the MGM film library, primarily as a programing cache for his superstation WTBS. He has since begun a well-publicized effort to colorize the black-and-white films in the movie library to enhance them, he says, for viewing on television.

"They probably think they're going up. I don't."

David Lerner
Vice president, broadcast supervisor, FCB/Leber Katz Partners

Over at ESPN, the sports network plunked down $153 million for three years worth of NFL games — 13 per season. The pact, considered a watershed agreement for the cable industry, and the Turner move are both part of cable's more than year-old effort to line up "punch through" programing.

But both deals show neither network had great hopes Madison Avenue would cover the costs of such an extensive investment in programing. ESPN is seeking huge increases in the monthly fees it collects from cable systems to help fund the NFL gambit. If cable system owners go along — and some already have — ESPN will end up the highest-priced basic service, charging cable system companies between 30 cents and 55 cents a subscriber each month.

The cable system connection is just as direct, maybe even more so, with Turner Broadcasting System's

TOP TEN CABLE ADVERTISING CATEGORIES—1986

FIRST QUARTER 1987

INDUSTRY CLASS	Cable Dollars (millions)	Jan/Mar 1987	Jan/Mar 1986	% Change
1. Food & Food Products	64,716.0	18,062.0	14,725.6	+22.7%
2. Toiletries & Cosmetics	54,631.0	12,419.6	12,934.8	– 4.0
3. Confectionery, Snacks, Soft Drinks	43,151.8	11,396.4	9,329.2	+22.2
4. Auto, Accessories, Equipment	40,439.3	10,118.0	8,924.8	+13.4
5. Mail Order	39,280.3	10,575.2	12,282.1	+13.9
6. Beer, Wine & Liquor	34,611.1	8,294.9	6,002.1	+38.2
7. Business & Consumer Svcs.	29,402.7	8,297.6	7,345.6	+13.0
8. Drugs & Remedies	28,572.3	9,010.1	6,497.2	+38.7
9. Entertainment & Amusements	27,929.7	5,443.2	6,715.5	+18.9
10. Soaps, Cleansers & Polishes	17,955.1	2,531.9	4,291.2	–41.0

Source: BAR/LNA Multi-Media Service
Cable Networks Monitored: CBN, CNN, ESPN, MTV, USA, WTBS

acquisition of the MGM films. Saddled with a huge debt load from that deal, Turner was forced to turn to the cable system companies, relinquishing a good deal of control of his cable empire to a consortium of cable companies, who invested more than $362.5 million in TBS equities. Again it was the cable systems to the rescue.

The other cable networks, though unwilling or unable to buy 1,200 films or an NFL package, have taken their own steps to boost their programing stature, either by buying off-network shows before they slip into syndication or ordering more of their own first-run series.

At CBN Cable, the key cost factor is programing and it's gone up considerably, says Greenlaw. "The syndicators are now looking at cable to air off-net programing. For instance, last fall we set a precedent by getting *Hardcastle and McCormick* right off the network."

This fall, CBN adds *Crazy Like A Fox* and *The Paper Chase*, he continues, "but the bad news is, it costs a lot of money. That's becoming the major factor now. Ted Turner would have made money last year if it weren't for the MGM deal."

The big question for most networks as they look ahead: Will they be able to fund such programing with just the unit price increases they're able to get through growing penetration and ratings?

New dial positions could lead to a shot at bigger audiences.

"They're going to have to," advises Lerner at FCB, "or they're going to have to keep spending in the red for a while." Concurs Esty's Winner, "They don't have to get more revenues from advertisers because they have a second revenue stream — the fees they get from cable systems."

This is not to say that the cable networks' spending — with, in some cases, a little help from their cable system friends — won't eventually pay off in handsome CPM's. TBS claims it's doing a better-than-average $6 CPM on colorized MGM movies, while ESPN expects at least a $10 CPM out of the NFL games.

"As the cable networks put on better programing and as they get better ratings, we can afford to pay more," states Winner. Lerner says a salesperson from ESPN told him that "the big difference (since the NFL announcement) is that people now call him."

What programing like NFL does for cable is battle the medium's biggest problem when it comes to driving up CPM's: too much supply. Broadcast network advertising may be measured in shows or even dayparts, but cable advertising is measured by the network — 16 or so of them.

Bart McHugh, senior vice president and director of national radio/tv programing at DDB/Needham, points out the growth of cable networks hasn't stopped yet.

"The Discovery Network is on the street and they're starting at 20 million homes" and attempting to attract the same kinds of upscale advertisers that the Arts & Entertainment Network and CNN go after, he says. "That cuts into a very specific slice of the pie," he

CABLE COMMENTS FROM BART McHUGH

Bart McHugh is senior vice president and director of national radio/tv programing at DDB/Needham.

On CPM growth for cable: "You've been seeing increases — minor increases. You're going to keep seeing them. You've got to remember that advertisers are waiting in line to buy the financial news shows. If ESPN clears football, they're going to be advertisers waiting in line to buy football."

On cable's growth: "You still have the universe growing. And so is the number of networks selling — Discovery is on the street now and they're starting out at 20 million households."

On the tough competition to win more of a client's budget: "If I come in with a $2 million cable budget, my CPM increase is going to be minimal compared to a guy who comes in with $400,000. All of the things you had in broadcasting, you have in cable in spades."

On cable's challenge: "They have got to continue doing what they're doing in terms of programing and promotion. The networks are working with each other."

On catching up with the broadcast networks: "I don't think anybody can say cable has reached parity with the three networks. I'm not all together sure that someday they can't make it. I also don't think I'll be around when they do." ■

warns.

So when it comes to any chance of rising cable CPM's, the battle for the networks remains matching still inadequate demand against bulging inventory. "I don't think it can be forgotten that cable is still a buyer's market," explains McHugh.

"The fact is," agrees Winner, "that cable has so much inventory to sell that it's very difficult for the demand to outstrip the supply. You'll never see a dramatic cost increase."

As a result, cable faces some very difficult choices, particularly in an era when many networks are still simply trying to attract a larger chunk of advertisers' budgets.

"Advertisers get rewarded for increasing share of budget to cable networks," says McHugh. But as he points out, the way you normally thank a client — giving them better efficiencies — does not do much for cable's desire to increase CPM's. Simply put, the choice remains pushing up the CPM or gaining more of an account's budget.

Greenlaw at CBN confirms that, adding that CBN runs at a 65% sellout rate, but would need a 90% rate to gain a better CPM. "We'll just get bigger budgets," he says. "You have to remember there are so many avails in cable."

And even when a cable network decides its goal is to win a higher CPM from an advertiser who is buying no more than last time around, the path can be treacherous, warns McHugh. "You still don't have a majority of the agencies or the client side convinced that if they don't have cable, they're going to die."

But network executives and media observers do see ways cable networks can close the gap between themselves and the broadcasters. In the main, it requires cable to create vehicles with limited inventory that advertisers want to be a part of.

Most often cited is the business news programing on CNN. The network's five daily shows and three weekly shows regularly attract a $9 to $11 CPM, far and away the big earner for the news network.

With the demise of the syndicated *Today's Business* and FNN's inability to attract strong ratings, says CNN's Joe Uva, "we've actually become stronger and the demand has increased for the business programing and the CPM's have stayed in the $10 to $12 range." Over the next year, he expects the CPM's on the business shows to rise another 15%.

No doubt because of its success in business, CNN looks to create other opportunities. This fall, the network will launch a nightly series, *Election '88*, that will run through next year's campaign. Uva hopes the Monday-to-Friday show will sell at a $5 to $6 CPM during its run. And, as mentioned, ESPN's NFL football will probably set a cost benchmark for that network.

Each service seems to have one or more shows that attract enough demand to outstrip supply. "The fact of the matter is there is a finite amount of attractive inventory that's out there," says McCormick at Lifetime. The key word there, of course, is attractive.

Another issue facing cable over the next year or two is whether the people meter will make the networks themselves any more attractive to advertisers.

The consensus so far is that people-meter data will ratify advertisers' commitments to cable by showing stronger demographic numbers than have been reported before. As a result, the networks will probably be able to raise unit prices, but it's doubtful they'll get much CPM mileage out of the new numbers.

"It's still a little early to tell," reports Robert Alter, president of the Cabletelevision Advertising Bureau. "On a household basis, it shows ratings about the same as the household meter."

"I see it justifying some of their numbers," says Shawn at Campbell-Ewald. "I don't see them increasing prices that dramatically where it would really make a difference."

Meanwhile, cable's deregulation, which took place in January, has yet to prove either a positive or a negative for the industry. Under deregulation, cable operators were allowed to charge more for their subscriptions, while at the same time they were permitted to move different networks around on the dial. The basic networks hoped the resulting new channel positions would give them a shot at larger audiences.

"When it was all starting, they all came to me and said, because of deregulation, we're going to see this, that or the other thing," says Shawn. "I haven't seen it. And I don't think they have." ■

TOP TEN CABLE NETWORK ADVERTISERS—1986

FIRST QUARTER 1987

ADVERTISER	Cable Dollars (millions)	Jan/Mar 1987	Jan/Mar 1986	% Change
1. Procter & Gamble Co.	27,673.0	5,174.1	7,582.1	−31.8%
2. Philip Morris Cos.	22,186.4	5,427.6	5,453.5	− 0.5
3. Anheuser-Busch Cos.	19,486.8	4,283.7	2,877.4	+48.9
4. Mars Inc.	17,668.0	5,744.4	4,312.2	+34.0
5. Time Inc.	16,036.6	5,321.8	5,398.0	− 1.4
6. General Mills Inc.	15,537.9	3,655.0	3,099.5	+17.9
7. RJR Nabisco Inc.	10,455.0	3,746.2	2,279.9	+64.3
8. Gillette Co.	7,738.1	3,104.7	2,226.7	+39.6
9. General Motors Corp.	7,203.4	1,970.6	1,008.3	+95.4
10. American Home Products Corp.	6,821.3	1,838.0	1,735.4	+ 5.9

Source: BAR/LNA Multi-Media Service
Cable Networks Monitored: CBN, CNN, ESPN, MTV, USA, WTBS

MEDIA COSTS/RADIO

CROSSED SIGNALS

Network's golden days are looking a little tarnished, but there's a glimmer of hope for the spot market.

by Rich Zahradnik

For the past two years, network radio has been sizzling along at a pace that has been the envy of other media. Radio networks picked up business at a heady clip while revenues for other media, including national spot radio, were staggered by the slowdown in advertising spending.

But the joy ride appears to be over. Most pundits predict a falloff for network radio in revenue and CPM growth. Conversely, there is a body of opinion — small, but growing — that believes national spot radio may be starting to recover from its doldrums.

Driven by the great efficiencies it offered in a time of advertising budget cutbacks, network radio sales jumped 16% from 1985 to 1986, finishing the year at $380 million, according to the Radio Networks Association. To top it off, the RNA reports that the networks carried ads for 900 different products and services in 1986, a colossal leap from the 600 the association estimates for the year earlier.

Though RNA president Robert Lobdell readily admits some of those products may have only been on the airwaves for one-week schedules, the figures are still telling. Radio networks, with their finely tuned demographic appeal, were hauling in the customers through 1986.

At the same time, more expensive national spot radio wasn't doing so well. The Radio Advertising Bureau reports national spot revenues climbed barely 2% during 1986 to $1.33 billion. Spot was obviously dealing with the same kinds of difficulties most of the other media faced.

"I was satisfied with what happened last year — it was a couple of percent, but not too extreme," says Jerry Riemer, regional supervisor for the Busch Media Group. Riemer is on the right side of the fence to be satisfied with a limited increase in spot CPM's.

As for network radio's days of glory, they seem to be coming to a close for now, just as some of the other media — particularly television — are hitting their stride. "I would expect that network CPM's would not increase beyond perhaps 5%," says Lobdell, even given "a broader base of

ILLUSTRATION BY DAVE FLAHERTY

advertiser involvement in the medium."

He won't find much disagreement among media folk. Mark Brown, radio supervisor at Campbell-Ewald, already sees an easing off in the network market. "It seems like at least for the summer time, it's been slow," he says. "We're certainly hoping a slow marketplace is going to make for some even better deals next year."

An exact estimate on CPM movement would be difficult, he continues. But based on what he's seen so far, Brown foresees network radio only rising in the low single digits.

As it happens, radio's upfront selling starts to heat up in just a couple of more months, and that's where the market will really begin to reveal itself. And even in years when network was hot, Brown says he's found the best deals in the upfront.

Last year, for example, "when we got into the upfront, I think they were looking to close on some big deals," he says. "Because of that, we were able to get some pretty decent efficiencies." He forecasts that since late scatter money hasn't come into the radio market this year, the networks may try to lock up even more money in the upfront selling, offering great deals. That could potentially freeze or lower CPM's.

"Network radio is going soft right now and it's been going soft for a couple of months," explains one planner with a major agency. "The revenues are flat from last year. I tend to think you're not going to be seeing that many CPM increases." Five percent "or under" is this planner's forecast because "television is eating up so much money that it's taking dollars out of the market."

Last year at this time, the planner continues, radio CPM's were running in the high single digits — "You had to commit way ahead of time to get what you wanted."

But with volume moving into tv — and the higher spending that requires — the extra money that may have been added to budgets this year is disappearing before it comes time to buy radio. "It's been tough — it's hitting them really hard," the planner concludes.

Joel Kushins, senior vice president and media director at Bozell, Jacobs, Kenyon & Eckhardt, isn't so negative. "They will probably have a fairly good year coming into next year, but not double digit by any stretch of the imagination," he says. "I would think there might be some increases coming on the rebound of what promises to be a pretty healthy television season."

His reasoning is that radio might just benefit during an election/Olympics year if television inventory gets swallowed up fast and advertisers seek out alternatives. "I'm sure that advertisers who have recognized the purchase of radio will probably continue to seek that out."

Kushins foresees network radio CPM's climbing 5-6% during 1988.

But national spot won't be so lucky, counters the media director. "If you were to gauge any increases by what we're seeing now, the marketplace in national spot radio is somewhat open. It would be the last of the components to move — after network radio, after network tv."

At the NBC Radio Networks, recently acquired by Westwood One, the thinking on radio CPM's matches that of Kushins. Stephen Soule, vice president of sales, forecasts a 6% increase, "mostly as a result of inflationary factors. It may go a little higher, but definitely under double digit."

In past years, he explains, radio cost increases have resulted directly from the demand placed on the medium by new clients and, particularly, new products. That influx has leveled off, bringing about a stabilization in the ra-

A TALK WITH JERRY RIEMER

Jerry Riemer is the regional supervisor in the Busch Media Group's Atlanta office.

On radio costs in the past: "We've pretty much held costs stable the past couple of years. I expected a bump last year and didn't get it. The market was a lot softer than we had expected it to be. I think the people who were negotiating on this particular piece of business were a lot harder and lot more adamant on what was acceptable."

On the debt being accumulated to buy stations: "Guys who are going out and paying major amounts of money for radio properties have got to find ways to get cash coming in. I don't know if it's going to be higher rates."

On increasing competition: "In order to generate an audience, people are going to have to do more in the way of promotional activity. A $1,000-a-day giveaway may someday have to become a $10,000-a-day contest."

On radio's benefits: "Radio has a fundamental strength that I don't hear about a lot about and that is its intimacy, its ability to talk to people one on one. That's one of the strongest features that radio has to offer." ■

dio market, he adds.

The NBC executive does expect to benefit from the summer Olympics, which his company has the rights to. But rather than simply air numerous features from the Olympics — the standard radio approach to the games — NBC Radio has elected to offer four hours of live, nightly coverage from Seoul, Korea.

The coverage will air every day from 10 p.m. to 2 a.m. Eastern time. "It was a way to use the 14-hour time difference to a great advantage," he explains. "That time of day will insure good station clearances."

Though NBC is just now working to clear stations for the offering, Soule expects to sell as much as 60-70% of his Olympic inventory before the radio upfront market concludes in the fourth quarter.

Overall, network radio's fortunes have changed for several reasons, not the least of which is the fact that automakers' inventories are not piled as high as they were last year.

Faced with mounting supplies of cars and slack demand, the big three car makers last year launched their blitz of financing incentives, buying up all kinds of time as they one upped each other with low interest rate and rebate offers. That bonanza of advertising business isn't around this year; the radio networks are feeling it.

The auto companies "spent a good deal of money in network radio last year because they had a terrible inventory problem — General Motors had a 91-day supply of cars," explains RNA's Lobdell. "These were fast-breaking national efforts. They needed to cover the whole dealer network. They needed to expose the message quickly, completely and in quantity, and they could do that through network radio."

And even though the auto programs came in as scatter business, they had a broad impact on the radio marketplace, says Brown, who works in Campbell-Ewald's Detroit office, because it was "something they figured into their projections." Now that there are no auto campaigns this year, the networks are feeling it.

In television, the people meter already has almost everyone running around in circles wondering about the impact of the new ratings system. Surprisingly enough, there's some concern the new tv ratings may hurt the radio networks. That's because the meters could produce stronger ratings for the cable networks and such improvement would make cable an attractive alternative for advertisers using radio, at least for the short term.

Asks Sylvia Hughes, vice president of radio research for the CBS Broadcast Group, "If the people meter turns out to show ratings for network tv that are lower than what the networks have been saying, and if the ratings for cable are slightly improved . . . will cable be a bigger bargain than network radio?" Hughes thinks so, adding the change will allow cable to mop up money originally destined for radio — that is, if the cable networks can control any urge they might have to make too much of the ratings gains by asking for price increases that are out of line.

With little hope for an early return to the grand sales and CPM increases of the past, network radio still faces an increasing cost base. According to Hughes, compensation to affiliated stations will probably climb more than 3% this year, as will other overhead items at the networks.

Higher labor costs are also in the offing, she and Lobdell of RNA agree, particularly following some of the labor strife earlier this summer. "It is a labor-intensive business," adds Lobdell. "There's always the question of people costs."

But the greatest pressure on the radio

RADIO REVENUE GROWTH
Millions of Dollars

Year	Spot	Local	Network	Total
1986	$1,332.6	$5,313.1	$380.0	$7,025.7
1985	1,319.4	4,915.0	328.7	6,563.1
1984	1,184.4	4,412.0	288.0	5,884.4
1983	1,022.8	3,739.0	253.5	5,015.3
1982	909.4	3,365.0	217.5	4,491.9

Source: Radio Advertising Bureau

RADIO'S 1986 TOP TEN ADVERTISERS

Network	(Millions of Dollars)	Spot	(Millions of Dollars)
1. Sears Roebuck	$47,658	1. Anheuser-Busch	$50,420
2. Warner-Lambert	22,707	2. General Motors	35,153
3. AT&T	22,552	3. Miller Brewing	28,724
4. General Motors	22,211	4. PepsiCo.	22,342
5. Anheuser-Busch	16,529	5. Sears Roebuck	21,928
6. Bayer AG	16,206	6. Delta Air Lines	21,708
7. Greyhound	15,544	7. Chrysler	21,071
8. Ford	14,871	8. Southland	19,962
9. Procter & Gamble	13,878	9. Van Munching & Co.	18,670
10. Schering-Plough	11,442	10. Pillsbury	18,178

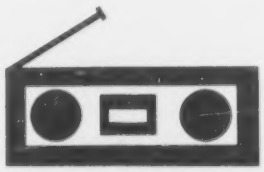
Source: Radio Advertising Bureau

networks will probably still be exerted from above. The new corporate owners that almost all of the radio networks picked up in the last year are looking for bottom-line performance: sales that climb and costs that fall. And few of the new owners seem so enamored with radio that they would hang on to networks that don't do them much good financially.

"I think that the most difficult thing they face is the change of ownership," says one agency observer. "They need to have this revenue coming in — it's mainly management pressure."

On the spot side, the business may be changing its tune. National spot radio has had problems in the past year, problems that will continue through the end of the year but may start to disappear as 1988 gets underway.

At McGavren-Guild Radio, the rep firm that handles stations in more than 200 markets, president Ellen Hulleberg sees a weak market in the short term. Through the end of 1987, she advises, spot will remain pretty flat and the year will finish with no growth in CPM's for the medium.



The high cost of recent station acquisitions and the big dollars needed to lure top talent will undoubtedly find their way into the ad rate structures for radio in 1988.

Next year, on the other hand, spot could come up with a 5% increase in CPM's, a development Hulleberg senses from the way fourth quarter has already started to tighten up. She expects the business to benefit in particular from the widely-heralded move towards regional marketing, citing Campbell Soup Co. plans to market its products on a more regional basis. Overall, she adds, spot can count on the promise of election year and Olympic spending.

"With the Olympics and political campaigns, I'm going to get a bump this year, more than I would like to pay," agrees Riemer at Busch Media. He's expecting CPM increases that could total between 5% and 10%. He adds, "The war will be a difficult one this year."

CBS's Hughes is the most pessimistic about spot's chances of showing gains in the next year. "National spot is going to have some increasingly difficult problems over the years," she says. "The last couple of years have not been good and I don't see anything on the horizon that says to me next year is going to be better."

All in the medium agree a major problem facing the stations is leverage, or, more specifically, the amount of leverage some new owners took on when they bought stations in recent years.

"How do you pay for all those millions of dollars?" asks Riemer. "I'm afraid it may drive down the quality of radio. People will get so desperate for income, you'll see eight units an hour go away. People will start to sell 12 units an hour."

Riemer also worries about the ever-escalating cost of on-the-air talent. He relates that WSHE in Miami just spent in the six figures to win away the morning team that was working at rival station WGTR.

But whether it's increased debt service or skyrocketing salaries for talent, radio stations will have a tough time covering such rising costs in the coming year, at least if they expect to do so with CPM increases in their national spot sales. ■

MEDIA COSTS/CONSUMER MAGAZINES

DOUBLE TROUBLE

Publishers are feeling the pressure from both sides as they set next year's magazine ad rates.

by Fred Pfaff

You don't want to be a publisher this fall, at least not during 1988 budget deliberations. Their costs have risen dramatically, but so have clients' ire over rate rises and agencies' determination to win rate concessions at the bargaining table.

"We are under tremendous cost pressure as an industry," notes Reginald K. Brack, Jr., president of the magazine division of Time Inc. Two of magazines' age-old cost pushes — postage and paper — are going up in price after a few years of price stability, and the prospect of taxes on advertising in other states beyond Florida looms large.

On the buying front, publishers have to contend with the fast-rolling snowball of negotiation. Such noted seers as DDB Needham senior vice president, director of media planning and operations Paul Zuckerman and Bozell, Jacobs, Kenyon & Eckhardt executive vice president, national media director Michael D. Drexler envision a future where negotiation is commonplace and many major magazines drop rate cards ("Media to Square One," July, pg. 29). Even though most report the strong books aren't dealing, buyers say their clients smell blood. They're prepared to push harder than ever.

Dimming the prospects further is the cloudy ad climate. Pages fell 1.4% to 152,643, while price hikes boosted revenues 3.3% to $5.1 billion in 1986, according to Publishers Information Bureau. For the first five months of this year, pages squeaked up 0.3%, while revenues increased only 2% over the same period in 1986. Major publishers look for a slight uptick in business in the fourth quarter, but they're wary of shrinking client budgets and generally fearful that this year they can't pass on costs to the advertiser. Many publishers can't see rates going up more than between 5% and 8%.

"With the economy still not up to snuff, advertisers are trying to hold the

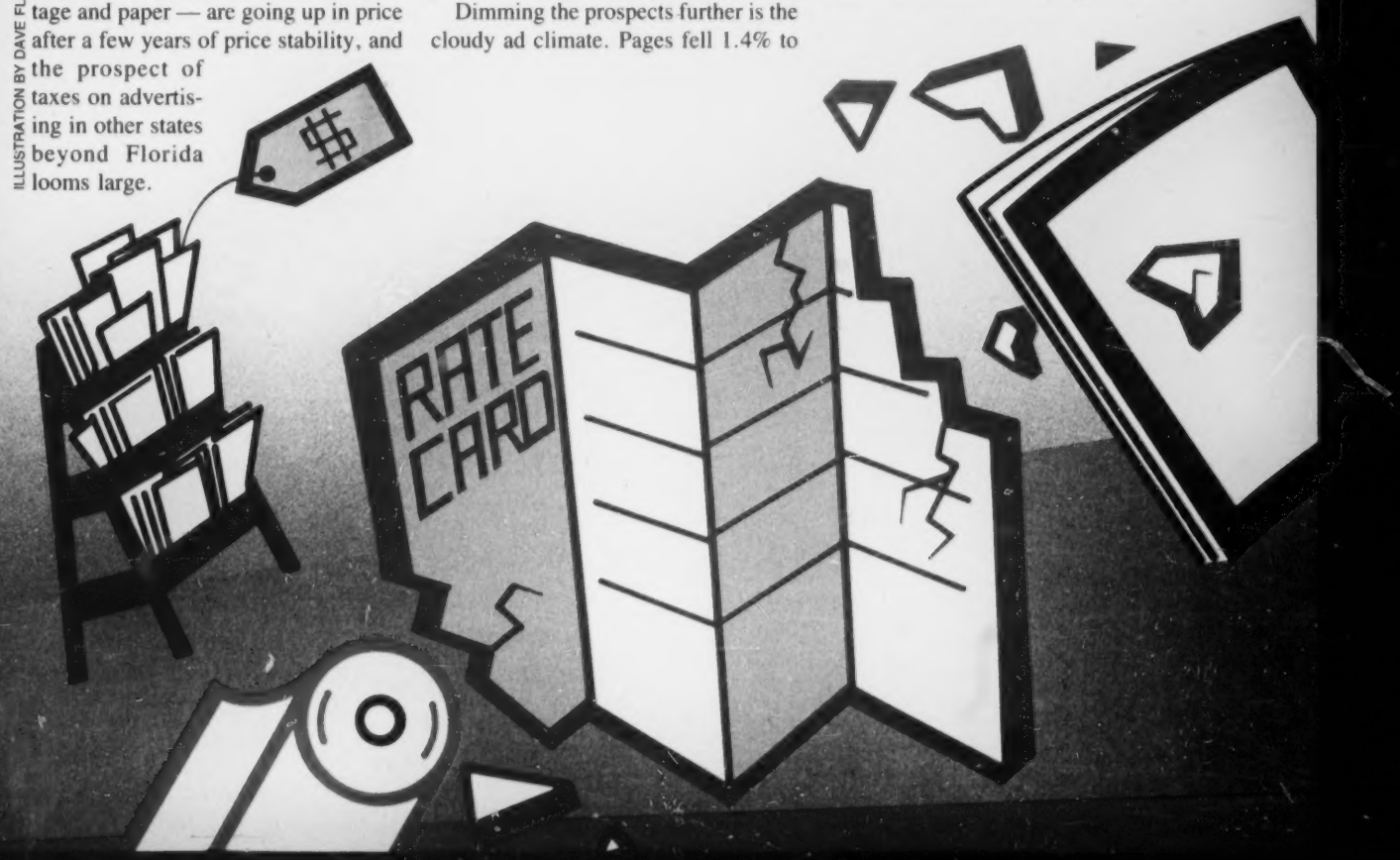


ILLUSTRATION BY DAVE FLAHERTY

line on rate increases and negotiate more," says James D. Speros, corporate media manager at AT&T, who looks for rate rises of 4% to 5%. "On the whole, we're not seeing incredible circulation gains. So it's not a good time to hit advertisers with strong rate increases. Advertisers want magazines to take introspective looks at their own businesses, ask some hard questions and find ways to cut costs."

"I don't think you'll see ad rates go up as high as they should this year," affirms Dale Lang, managing partner of the Working Woman/McCall's Group (a joint venture with Time Inc.), who points out that publishers' costs often rise at a higher level than the Consumer Price Index. "I think publishers will just tighten their belts, because they don't think the industry is strong enough to sustain the kind of increases that publishing inflation calls for." Hearst Magazines executive vice president, group publishing director George Green shakes his head and agrees: "Big increases aren't in the cards at all this year."

Big cost hikes, however, are. In March, the U.S. Postal Service filed for an overall rate increase of 16%. It will smart. According to P. Robert Farley, a senior vice president at the Magazine Publishers Association, postage represents about 9% or 10% of the average magazine's costs. First-class mail, which magazines, like other businesses, use for day-to-day business correspondence, is slated to go up 16%, from 22¢ to a quarter; third-class, which publishers use for promotional mailings, would rise 23%; and second-class, the rate at which publishers send out their magazines, would increase 13.8%. Since second-class is priced by weight, notes Hearst's Green, the increase will most affect publishers who print books on fine (read: heavy) paper and fatten them with ads.

Media directors are prepared to push harder than ever for rate or merchandising concessions for the coming year.

There is a chance to ease some of the burden, notes Chris Lehman, vice president of operations at Meredith Corp. According to Lehman, large publishers can win marginal discounts through a variety of mail presorting techniques.

No publisher can get around a paper rate increase, however. After dipping about 8% late in 1986, the price of coated groundwood paper — which, the Magazine Publishers Association reports, accounts for about 73% of all magazine paper — will rise 8%, effective July 1. As Meredith's Lehman notes, the increase caught publishers by surprise. As James L. Hutchison, vice president, paper group at the American Paper Institute, reports, new machines built last year by International Paper, Consolidated Paper and Bowater Consolidated have boosted supply by 9.5% this year.

"But since May, the orders for coated paper have come in much higher quantities than could have been anticipated," says Hutchison. When supply looked ample earlier this year, he says, many publishers cut their inventories. They knew their soft advertising environment wouldn't make them aggressive paper buyers; the MPA's "Paper Outlook" reports that publishers expect to increase their consumption by only 2.6% this year over 1986.

The pressure comes from other customers. Consumption by direct mailers, Hutchison notes, has grown by 6%, while producers of free-standing inserts have been using 10% more coated paper than a year ago. Most of all, catalogers, expecting strong fourth quarters, upped their orders dramatically in May, causing backlogs in delivery that have prompted other heavy users to increase their orders.

Luckily for publishers, printing and binding shouldn't mandate crippling new outlays. "We've been fortunate in that the printing industry seems to be particularly competitive today," notes

CONSUMER MAGAZINES ADVERTISING RATE INDEX

Year	Unit Rates	Cost-per	Consumer Price
1970	100	100	100
1977	119	123	156
1978	120	135	168
1979	140	146	187
1980	156	162	212
1981	173	179	234
1982	189	195	249
1983	203	212	258
1984	224	227	269
1985	241	242	279
1986	263	261	284
1987 (est.)	274	271	295
1970-77 increase	19%	23%	56%
1977-87 increase	130	120	89

Source: James B. Kobak & Company

BASIC DATA FOR CONSUMER MAGAZINES
SELECTED YEARS—1970-1986

	1986	1985	1984	1983	1982	1980	1970
Number, including farm publications	1,866	1,859	1,816	1,759	1,644	1,506	1,182
Advertising in major magazines							
Pages (per year)	152,100	152,100	153,800	133,000	120,800	115,300	76,900
Dollars (millions per year)	$5,120	$4,920	$4,668	$3,421	$3,222	$2,374	$1,169
Circulation per issue ABC audited magazines (millions)							
Single copy	78	81	82	83	86	91	70
Subscription	251	243	233	222	217	174	173
Total	329	324	315	305	303	265	243

Source: James B. Kobak & Company

Lehman. "We've been able to hold those costs pretty much in line."

Still, the cost of gaining and maintaining circulation — over 27% of publishers' costs — has been rising every year while circulation profits decline, notes Dale Lang, whose newfound association with Time Inc. has allowed him to cut his circulation outlays. "With the proliferation of titles in the last five years, and more people working," he explains, "you have to make more and more mailings and phone calls to get a subscription sold." On top of this, he adds, "There's more churn; many are subscribing for a year and not renewing."

To make matters worse, he notes, non-magazine products are causing a crowd at the checkout counter. Circulation experts concur that books that aren't top sellers or lack the multi-title clout of a Time Inc. or a Hearst have trouble getting upfront positioning. Their recourse is to sweeten their bids to retailers by offering greater "incentive payments." Newsstand supply and demand, one publisher reports, has pushed up his outlay almost 40% in the past five years.

Meanwhile, "Nobody wants to work for less," pipes in Joseph Fuchs, a corporate vice president at Conde Nast Publications, Chris Lehman agrees that salaries probably will rise more than the inflation rate. To attract talented editorial people, "you *have* to put up higher salaries and benefits," stresses Fuchs.

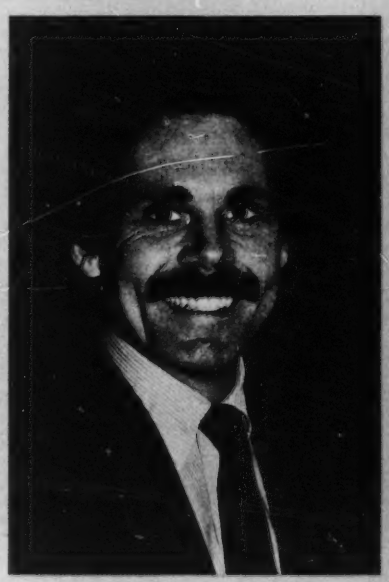
That's *their* problem, thinks Fred Wray, senior vice president, media director at Foote, Cone & Belding/Chicago. Others nod in agreement: Magazines have passed along rate rises that exceed inflation and their clients' budget hikes for too long to suit them. It's time, the chorus goes, for publishers to cut costs.

"Like they really know our profit structure," rebuts one publishing executive with a multi-title company. "I haven't heard one agency say, 'Because client budgets are the same or less than a year ago, we're going to cut costs in order to stretch dollars.' Yet they turn and say, 'We expect you to do better by us.' "

But a number of publishers are tightening their belts. "We have no intention of passing along all of our rising costs to advertisers," says Time Inc.'s Reginald Brack. He has embarked the company on a cost-cutting program ("Brack's Time," July, pg. 40) that has consolidated responsibilities, cut jobs, made circulation more profitable and boosted profits by more than $20 million this year. And Meredith, says Lehman, realizes that "we have to become more efficient in our own operations," and has embarked on a cost-cutting program that will include job reorganizations and changes in purchasing policies.

TOUGH TALK WITH FRED WRAY

Fred Wray is senior vice president, media director at Foote, Cone & Belding/Chicago.



On 1988 magazine costs: "I anticipate unit cost rises of 5%. Business is extremely tight. If a book is hot, they can afford to walk in with stronger increases. If they're desperate, they have to make themselves more attractive. Margins for clients have fallen off, and the first place they're turning to help rebuild margins is ad budgets.

"Magazines have had the nerve to walk in and ask for rises of 9% and 10% when that's not the level of rise in the general economy. What it comes down to now is whether or not they're willing to raise rates and get zip in business. I don't think any magazines are

Another thing likely to hold rates down is the growing practice of negotiation. Buyers and sellers alike say that *McCall's* has cast a pall over pricing by dropping its rate card. "Publishers have to keep in mind the move *McCall's* made," says Lehman.

Some buyers anticipate publishers will announce artificial rate hikes in order to end up with the price they want after negotiation. "Everybody will negotiate *something* with you," notes W. B. Doner & Co./Los Angeles media director David Buckley. Hoping to give clients ads he can prove actually work, Buckley is taking a second look at coupon ads in free-standing inserts. Also, he plans to make publications more accountable for the sales results, even from image ads. "Sooner or later," he warns, "on a post-buy analy , magazines are going to have to answer for those rate increases."

"Fewer magazines will get more business," says Fallon McElligott media director Jim Sandstrom. "We'll try to maximize our frequency in the books we do use. And we'll be tougher on things like position guarantees and merchandising." Sandstrom wants to negotiate hard. "We're anxious to make print as much a commodity item pricewise as broadcast," he adds. "We want to be able to extract more from a client's budget — get more books on a schedule of more pages of advertising."

CONSUMER MAGAZINES SOURCES OF REVENUE

Year	Advertising	Subscriptions	Single Copy
1970	64.33%	27.91%	7.76
1977	55.47	29.59	14.94
1978	53.69	28.67	17.64
1979	52.22	30.41	17.37
1980	51.14	32.67	16.19
1981	51.08	33.30	15.62
1982	50.19	33.32	16.49
1983	49.87	33.70	16.43
1984	51.91	32.97	15.12
1985	49.70	33.29	17.01
1986 (est.)	50.40	33.60	16.00

Source: James B. Kobak & Company

While he thinks "Some books have been fair in their pricing and don't deserve to be hit hard for rate concessions," Mike Gross, vice president, associate media director at J. Walter Thompson, says, "We're between a rock and a hard place. Clients read about cutting rates, and they're going to demand the best rates. You can say to them, 'Five years down the road, there may be negative ramifications — some books will go out of business.' But it's still our job to get the best deal for our clients. They'll say, 'You're telling me we aren't going to press for the $200,000 we saved last year?' "

Not surprisingly, publishers say they're going to hold off setting rates as long as possible to gauge the going prices before they make their moves. "We'll put it off as long as we possibly can this year," attests Hearst's George Green. "We don't intend to be the leaders in setting rates. We want to get as clear a picture as possible before we go ahead."

Green does have a price ceiling in mind, though. While a popular title like *Country Living* may be able to bank a substantial increase on its rising circulation and ad-page counts, Green says, overall he can't see rates climbing any more than they did last year — an average of about 5% at Hearst. "And I don't think you'll see corporate across-the-board increases," he adds.

Publishers are looking for ways to improve their efficiency for advertisers before heavy-handed negotiators press them into giving away the store. More are turning to advertising packages that reward an advertiser for placing more business throughout their publications. Shortly before *McCall's* dropped its rate card, Meredith, publisher of competitors *Ladies' Home Journal* and *Better Homes and Gardens*, expanded a combination buy for the two magazines into a package including all Meredith magazines and special opportunities to bring Meredith's radio, book publishing and real-estate services into a buy.

On the lookout for new package introductions, buyers and sellers alike turn their eyes toward Murdoch Magazines, a notable holdout, and smaller

willing to take that risk."

On the FSI alternative: "FSI's have siphoned off a dramatic amount of revenue from magazines over the past four or five years. They give the same four-color reproduction, solid circulation and great coupon redemption. But the clutter problem now is incredible. Too much of a good thing."

On the medium's responsibility: "Acceptance won't be strong for magazines who raise rates 10%. Their job, like mine and my clients', is to control costs. The one who controls costs the best will win the most. My clients aren't getting 10% more for their goods. How can I expect to make them pay 10% more?" ■

146 Reasons to buy CONTINENTAL

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3. Amarillo
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5. Auckland
6. Austin
7. Bakersfield
8. Baltimore
9. Baton Rouge
10. Billings
11. Bismark
12. Boise
13. Boston
14. Bozeman
15. Bradenton
16. Buffalo
17. Burbank
18. Burlington
19. Calgary
20. Cancun
21. Casper
22. Cedar Rapids
23. Chicago (O'Hare & Midway)
24. Charleston
25. Charlotte
26. Cincinnati
27. Cleveland
28. Colorado Springs
29. Columbus
30. Corpus Christi
31. Cozumel
32. Dallas
33. Denver
34. Des Moines
35. Detroit
36. Durham
37. Edmonton
38. El Paso
39. Eugene
40. Fargo
41. Ft. Lauderdale
42. Fort Meyers
43. Ft. Worth
44. Fresno
45. Grand Junction
46. Great Falls
47. Greensboro
48. Greenville
49. Guadalajara
50. Guam
51. Harlingen
52. Hartford
53. Honolulu
54. Houston (Intercontinental & Hobby)
55. Indianapolis
56. Islip
57. Ixtapa
58. Jackson Hole
59. Johnston Island
60. Kansas City
61. Knoxville
62. Kosrae
63. Kwajalein
64. Lafayette
65. Las Vegas
66. Lincoln
67. London
68. Los Angeles
69. Majuro
70. Manila
71. McAllen
72. Medford
73. Melbourne
74. Mexico City
75. Miami
76. Midland
77. Milwaukee
78. Minot
79. Minneapolis
80. Missoula
81. Monterrey
82. Montreal
83. Nadi
84. Nagoya
85. Newark
86. New Orleans
87. New York
88. Norfolk
89. Oakland
90. Odessa
91. Oklahoma City
92. Omaha
93. Ontario
94. Orange County
95. Orlando
96. Ottawa
97. Palau
98. Palm Springs
99. Papeete
100. Pensacola
101. Philadelphia
102. Phoenix
103. Pittsburg
104. Pohnpei
105. Portland, ME.
106. Portland, Ore.
107. Providence
108. Puerto Vallarta
109. Raleigh
110. Rapid City
111. Reno
112. Rochester
113. Sacramento
114. Saipan
115. Salt Lake City
116. San Antonio
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118. San Francisco
119. San Jose
120. St. Louis
121. St. Paul
122. St. Petersburg
123. Santa Barbara
124. Sarasota
125. Seattle
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127. Spartanburg
128. Spokane
129. Springfield
130. Stockton
131. Sydney
132. Syracuse
133. Tacoma
134. Tampa
135. Tokyo
136. Truk
137. Tucson
138. Tulsa
139. Vancouver
140. Washington, D.C. (Dulles & National)
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specialty publishers. Hearst's George Green, for one, can see the smaller fry banding together to form packages of books owned by different companies.

But while such packages as the Hearst Gold, Home, Man Power and Women's buys offer savings of up to 30% (Hearst's are unique in that an advertiser's pages count toward both the package and individual titles' frequency discounts), many buyers are

Citing that they do not intend to pass on all cost hikes to buyers, many publishers are cutting their own internal costs.

wary of packages. Fallon McElligott media director Jim Sandstrom, for one, wouldn't put more business into a book just to get a package discount, and many agree, since most package discounts aren't great enough to cover the cost of a book an advertiser doesn't really need.

"We try to stick to the media plan and not let pricing be the tail that wags the dog," explains Sandstrom. "And too many of those family kinds of buys marry a strong publication with an also-ran. It helps the publishing company, of course, but it does the client no good in the end."

Knowing they'll be hit head-on with the issue of price, publishers are gearing up to promote product quality more heavily than ever. "We clearly haven't been doing that well enough," says George Green. "So now we're trying harder to say, 'It's the impact — what comes from advertising — that matters, not price. All magazines aren't created equal."

When it's down to that argument, buyers say, there's tough times ahead in Magazineland. ■

MEDIA COSTS/BUSINESS MAGAZINES

VERTICAL HOLD

The trade magazines' rate increases will run head-on into paper and postage hikes — not to mention the pressure to deal.

by Carol Hall

Ask a publisher or a media director what 1987 rate increases look like for the business press and you hear the word "flat" in stereophonic sound. Ask them for actual figures and you realize just how relative this term can be. Though agency-based seers predict a range of 4% to as high as 9%, and publishing honchos come up with figures in the 6% area, publishers' increased costs of doing business may indeed crush any rise.

While not the astronomical, double-digit jumps of years past, the hikes do exceed the expected increase in inflation. One big reason is the approach of a whopping postal rate increase, expected to become official by next summer. Elsewhere, though the industry is looking at minimal increases in printing and labor costs, paper rates have just risen for the first time since 1985.

Publishers also continue to come under pressure from agencies and advertisers to "make a deal." They are being pushed for merchandising offers and other value-adds, as well as package deals, or group-buy discounts. And, of course, there is the specter of the vanishing consumer-book rate card for business magazine publishers to shoo away.

Through it all, publishers are hoping to make up for lost space. This year's ad page count for the business press looks like it will be down, after a 4.5% drop in 1986, according to Gordon Publications.

It won't be easy to recoup those pages. Some warn that more b-book dollars are being siphoned off into other media — direct mail being the top contender, but more general interest books and even tv being in the running. On top of all that, observers are making the long-term prediction that many categories will be shrinking down to two or three strong books — period. Says Ron Coleman, president of the Business/Professional

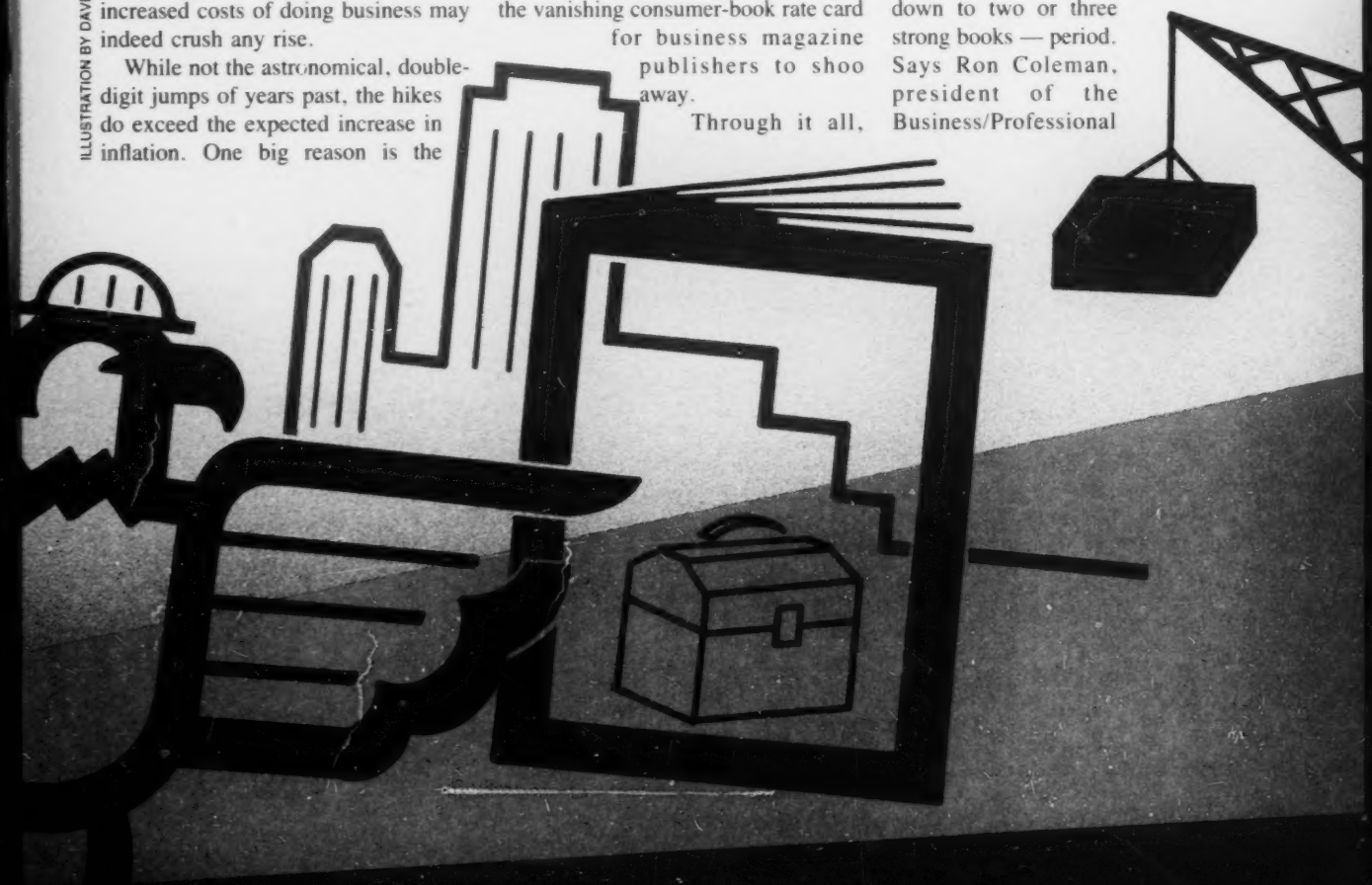


ILLUSTRATION BY DAVE FLAHERTY

Advertising Association, "You're going to see more and more marketplaces with maybe two books dominating. You're going to see better books serving the marketplaces."

Broad-interest business books, namely horizontal magazines like *Business Week*, *Forbes* and *Fortune*, probably won't raise their rates any more than 7%, guesses Joe Newman, vice president/associate media director at Della Femina, Travisano & Partners. Most agree the vertical trades won't go above that mark, either. Newman, for one, says 1987 increases should total 5% on average, with 1988 inching into the 6-to-7% range. Herb Gordon at Ketchum Communications sees 1987 ending up with unit costs increasing 6% and 1988 per-page costs rising 5.5%.

Media people at smaller agencies vary more widely in their projections, in part because of the fortunes of their clients' industries. Some industry books are in a position to hold firm in their rates, while some will undoubtedly be more inclined to negotiate in an effort to hold advertisers. W.

Media people at smaller agencies vary more widely in their rate projections.

Gene Thompson, vice president, media director of Cleveland-based Meldrum and Fewsmith, sees 1987's increase totaling 6%, but 1988's jumping 9%. But Roy Minster, media director of New York-based Hammond Farrell, sees both 1987 and 1988 bringing in only 4% increases.

Publishers' estimates are generally in the same ballpark. John Wrede, president of McGraw-Hill, says 1987 increases won't go beyond 4%, with 1988's rising to 6%. Richard Moeller, president of Harcourt Brace Jovanovich Publications, says that both 1987 and 1988 will see 5% to 6% increases in page rates. Maclean Hunter Publishing president Dan Sember eyes increases totaling 5% for this year and 5% to 6% in 1988.

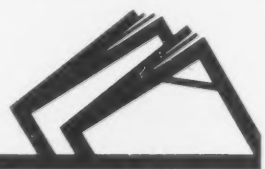
Though it will of course vary by industry, clients' budgets are not expected to rise much next year, agency people report. If anything, they say, the number of ad pages will be trimmed and some books will be dropped from advertiser schedules, especially if rate hikes are felt to be unjustified.

Inflation is always a basis for media cost increases and the Consumer Price Index, a good indicator of it, is expected to finish 1987 with an increase of about 4%, according to the Conference Board. That's quite a comeback from 1986, when the CPI rose only 1.9%, and it reflects stronger oil prices. The trend in oil prices should continue to be on the upswing in 1988, when the Board sees the CPI rising by 5.5%.

For 1988, postage rates are to publishing what oil is to the CPI. For some time the postal service, with its bald-eagle logo, has held the threat of rate increases over publishing like a bird of prey riding an air current. Next year, the P.O. comes in for the kill. Proposed rate increases will become law by late spring or early summer (though rates might not go into effect until after the November elections). The average cost of a second-class mailing, the category the vast majority of magazines falls into, could rise 13.8%.

Rates for each book will be figured according to a two-pronged formula. There will be a flat charge based on how finely sorted the magazine is, i.e. five-digit zip code, three-digit, carrier route. The less work there is for the postal service to do, the less a publisher pays. The second charge is based on weight and what percentage of it is due to advertising.

According to David Minton, Washington counsel of the Magazine Publishers Association, some publications — especially those that don't supplement their income with



BUSINESS MAGAZINES ADVERTISING RATE INDEX

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1986	244	233	284
1987 (est.)	256	245	295
1970-77 increase	37%	28%	56%
1977-87 increase	87	91	89

Source: James B. Kobak & Company

advertising — could be crippled. But despite the large numbers, Minton thinks the rates are not as bad as many feared. "The average publisher would privately say, 'I'll take it,' " he says. Tell that to Terry McDermott, executive vice president at Cahners Magazine Division. He expects their rates to go up 20% in some cases.

The other cost hit to publishers will come from paper price increases. Prices for coated groundwood, the stock used by most magazines, went up as of July 1 by 8.8%, the first increase since 1985. It jumped $60 a ton, from a top price in the first half of 1987 of $680 a ton to $740 for a ton of No.5 40-pound groundwood.

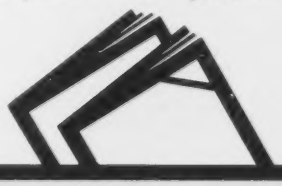
This is happening despite the current production overcapacity paper producers are experiencing, says Will Mies, editor of *Pulp and Paper Week*. "Demand has been very strong, largely due to inventory building and non-publication increases in use," which includes things like catalogs, he explains. Demand was up 7.9% through April of this year compared with the same period in 1986.

After postage, the other cost hit to publishers will be paper price increases.

Paper production capacity will continue to grow, with potential production of coated groundwood for 1987 reaching 4.3 million tons and growing to 4.66 million tons in 1989. So far this year, there's an overcapacity that's resulted from a number of paper producers updating their equipment. "The paper industry has a tendency to put in machines like lemmings rushing to the sea," chuckles Mies. "That's lead to overcapacity and that leads to lower prices." But the overcapacity is already being gobbled up by increased demand, so bye-bye price breaks.

Two huge machines went into production in the U.S. over the last year and a third one just began operation in Canada. Much of its paper is being directed at the U.S. market. In general, paper shipments from foreign manufacturers were expected to fall in 1987 due to a stronger dollar. Not so. Mies says shipments for the first quarter of 1987 are up 29% over the same period in 1986. Last year, foreign shipments totaled more than 6% of the total new coated-paper supplies in the U.S. That's expected to reach 8% by the end of this year.

Printing costs are another ever-present among publishers' price considerations. The picture for 1988 is looking even rosier than it has this year: Costs are holding steady or, in some cases, even declining slightly. Many publishers report negotiating more favorable, longer-term contracts with their printers. Some publishers say



A CONVERSATION WITH JOE NEWMAN

Joe Newman, vice president, associate media director at Della Femina, Travisano & Partners, sees publishers under pressure.

Off-card rates: "Everybody's talking about it, everybody wants to do something about it. There's a lot of magazines that are selling off-card. Next year, all magazines will have cards. If they can, they're going to stick with them. But if not, they'll negotiate. They're scared a little bit. They don't want to lose the business.

"I think if one large publishing company would stand up and say 'No,' then other organizations would feel safe in doing the same thing."

On shrinking trade categories: "Long range, the publications that are number five in their field are going to have a hard time. We are buying smarter and better. We don't have to buy all the books in a field anymore."

On other b-to-b media options: "We're looking more than we have been into radio and television and outdoor. But I also think the business-to-business advertiser is not just looking to trade publications. The competition for many of the trade magazines is coming now from the demographic editions of the consumer magazines — in *Sports Illustrated Select, Time B* [their business-targeted edition] and *Newsweek Gold*.

"Step number one is to recognize who your competition is — then you can fight it. But if all you are doing is selling opposite other trade magazines in your field, I think you're just being short-sighted."

On the elections and the Olympics: "The business press could hurt a little because some money could go elsewhere. Obviously there are going to be a lot of tv viewers or readers of things like *Sports Illustrated*. It's possible that, with special opportunities, larger advertisers will utilize the Olympics as a backdrop.

"I don't think it's going to be major. Advertisers in the business press, excluding corporate advertisers, will continue." ■

they've gone from three- to five-year contracts, for instance, or are renegotiating existing printing contracts. Estimates for printing cost rises are put no higher than 3% for both 1987 and 1988.

Labor costs, most say, will increase marginally next year. That cost package includes not only wages, which are seen to rise only slightly above inflation, but things like healthcare and insurance. Healthcare is "the part of our costs we've just seen skyrocket," groans Richard Moeller at Harcourt Brace Jovanovich. But he's happy 1988's increases look to be in the 10% range, as opposed to the 20% to 30% range publishing companies have been contending with over the past few years.

While rate-card bashing is sending quakes through the consumer book industry, most connected with business magazines think it will be much slower to permeate the b-to-b ranks. A large percentage of business publications are controlled circulation, freeing them from many of the numbers pressures consumer titles face. Circulation is stable — as long as a book's target industry is.

But some say that as ad pages continue to slip away, publishers are more anxious than ever to hold on to advertisers at any cost. They add that with the increased mergers in the business book field, fewer salespeople are handling more properties. It's more expedient for them to get bulk sales by offering package deals. Some fear that if things don't improve, it could lead to off-card rates.

Others maintain there are no "ifs" about it: Off-card deals already exist. "I'm afraid it's broken loose," sighs Meldrum and Fewsmith's Thompson. "It might make it tougher for a small guy who doesn't have as much negotiating power. I'd hate to see it run rampant."

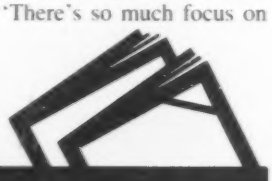
Many are afraid that if rate-busting becomes a trend in this industry, it will take on the aspect of consumer-product promotions. In an effort to keep up with each other, publishers will keep chopping rates, whittling down profit margins. And agency people will have that unsettling feeling that so far only tv negotiators have to take to bed at night: Did I *really* get the best deal for my client?

Terry McDermott claims Cahners has taken a stand against off-card dealings. "There's so much focus on it that, at our last publishers' meeting, we said, 'Company policy is: If it's not on the rate card — forget it!' " Yet, regarding other forms of price breaks — the types some agency people say amount to the same thing as rate busting — his line is the same as many other publishers'. "Sure, if you're a million dollar client and buying nine magazines in the electronics and computer group, two in the manufacturing industry group — are you paying the same rate as a one-time black-and-white advertiser? Hell no." But, he says in defense, "it's all on the rate card and in the national account plan."

McDermott brings up a sales tactic that's still much more prevalent than off-card sales: package deals. These occur when an advertiser with cross-industry capabilities, such as a healthcare marketer or computer company, agrees to buy into, say, fifteen of a publisher's books for a special rate. Though multiple book buys have been around for some time and are far more common in the consumer magazine field, they gained a momentum in the early 80's thanks to a trend kicked off by the establishment of General Motors Corporation's Media Council print negotiating arm.

At least some type of value-added agreement can be worked out with almost every publisher. They can be anything from publisher-sponsored direct mailings, guaranteed rates for a certain period, remnant-space rates, the placement of advertorials, discounts for ads that run near a competitor's in a book, even monies to support research in a particular industry. Hammond Farrell, for example, wanted companies that didn't use its GE Power Stick Battery to try them in their products. It wanted to reach new prospects, so worked a deal with *Consumer Electronics* to run extra inserts in about 3% of the complimentary issues it sends out.

Despite the fact that many claim the industry-wide trend is towards two- and three-book categories, listings of business books grew slightly, to 3,833 from 3,816, between June 1987 and 1986, according to Standard Rate &



FIRST QUARTER 1987 CATEGORY SCORECARD

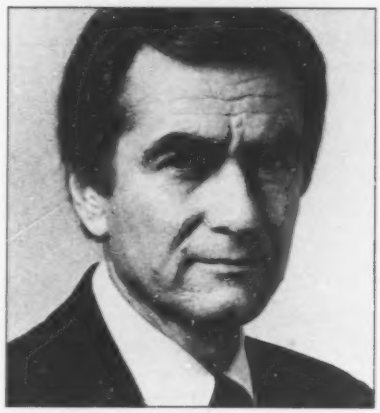
Business Pub. Group	Pages Jan-Mar 1987	Pages Jan-Mar 1986	Page Change	% Change
Industrial Products	5279.88	5357.55	−77.68	−1.45
Electronic OEM	3596.30	4101.45	−505.15	−12.32
Radio & TV	3180.75	3298.90	−118.15	−3.58
Design OEM	2316.09	2260.06	56.03	2.48
Metals	1921.55	2446.54	−524.99	−21.46
Advertising/Marketing	1888.37	2068.81	−180.44	−8.72
Hardware/Home Center	1681.02	1967.99	−286.97	−14.58
Industrial Plant	1321.43	1367.96	−46.53	−3.40
Optometric	1320.29	1382.22	−61.93	−4.48
Consumer Electronics	1197.95	1242.99	−45.04	−3.62

Source: Space Analysis Systems Inc.

Data Service. The five categories with the most new listings were medical (34 additions); local business (30); national business (15); automated data systems (13); advertising (10). Most of those, according to SRDS, were indeed new starts. The service reports that 1986 saw 433 business books join its listings, 261 leave the list.

Typical of most years, publishers have watched some categories soar (computer components and food service) and others sour (coal mining). *Iron Age*, a trade book classic, ceased publication in 1986.

According to Space Analysis Systems, a business book page-tracking company, ad pages for the books in over 50 categories dropped 5.9% in 1986, and are down 6% for the first quarter of '87. Seasonality in each industry can cause ad sales to zig and zag all year. The timing of trade shows, for instance, varies by market. Retailing shows are usually at the beginning of the year, while many industrial shows are in the spring and fall. The chemical industry, for example, doesn't have its big trade blowout until December.



"[Off-card deals] have broken loose. They make it tough for a small guy."

W. Gene Thompson
Vice president, media director, Meldrum and Fewsmith

Space Analysis reports that the metal producing category took the biggest percentage hit in '86 — down 28.6%. Coal mining books saw pages drop 22.1%. The biggest gainer in ad pages was the radio and tv category, books read by people who buy and sell programing. It gained 12.3%. Banking books followed with a rise of 9.9% in pages, largely due to the increased use of automation by banks, as well as more non-banks like Sears and insurance companies coming into the field.

Bert Peller, vice president/media manager for business markets at J. Walter Thompson, follows the business press in the data processing field closely. Of the 26 books he watches, rate increases approached 10%, while their ad pages grew 3.5% last year. He says their rates will continue to grow in 1988, anywhere from 5% to 10%. ■

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"YOU'D DIE IF YOU HAD OUR JOB."
YOU COULD LEARN A LOT FROM A DUMMY. BUCKLE YOUR SAFETY BELT.
A Public Service Message
Ad Council
U.S. Department of Transportation

SWEET LIMBS

"Inward and outward to northward and southward the beach-lines linger and curl
As a silver-wrought garment that clings to and follows the firm sweet limbs of a girl.
Vanishing, swerving, evermore curving again into sight,
Softly the sand-beach wavers away to a dim gray looping of light."

—Sidney Lanier, The Marshes of Glynn, reprinted from a critique on the poet by Jack de Bellis.

No section of the country pushes its territorial toes into more salt water than the South. But what these musically ordered lines celebrate is the infinite variety of those sea-to-shore intimacies. They range from wave-smoothed beaches vacationers swarm to; and include those miles of coastline that are all business, as in Texas and Louisiana, where world class vessels clog the nation's second and third port—Houston and New Orleans—and oil rigs offshore work their silent and endless magic. Then, too, there is Florida—where the ocean plays with the scattered Keys, and intrudes its presence into the Everglades to provide refuge for an endangered Nature and its creatures in the beautiful raw.

Southern Living®

Put your money where the South is

MEDIA COSTS/NEWSPAPERS

THE NEW REALISM

Wary of the rate differential and hungry for new business, newspapers look to keep national rate rises in the 5-to-7% range.

by Fred Pfaff

It happens right about October, every year. Agency newspaper buyers do a slow burn as they brood over clients' rising demands and flat budgets. Then they boil over when the first notices hit their desks detailing above-inflation newspaper rate hikes.

A new attitude among publishers, however, may put a lid on the boil this year. While newsprint costs are leaping like they haven't in years, newspapers are fending off union demands and succeeding in reducing staffing overhead. Inflation is leveling out at around a livable 4-to-5%. The new tax law will lower publishers' outlays. And best of all, newspapers are determined not to price themselves out of potential new national business. To stay in the running, they are getting more sensitive to the rate differential, trying creative price structures and planning to keep national rate hikes to a minimum.

Optimists' confidence rises and falls with the inflation rate, and the prospects for the near term are looking bright. A consumer price rise of only 0.3% in May slowed a 5.6% inflation growth from January to April and led the Bureau of Labor Statistics to predict inflation will stay from 4% to 5% through December.

Also steady has been newspapers' ad revenue growth, which Lynch, Jones & Ryan newspaper analyst Bruce Thorp ties largely to advertising rate increases. The Newspaper Advertising Bureau predicts that national ad revenues, which edged up 0.7% in 1986, will rise 3% this year to $3.4 billion; retail ad revenues, which climbed 6.5% in 1986, will increase 8% to $15.5 billion; and classified revenues, which jumped 11.1% in 1986, will hop 12% to $10.4 billion.

The biggest spoiler on the publishers' ledger sheets has been newsprint, which represents about 23% of a newspaper's costs. Prices went up 6.5% near the end of last year, from $535 to $570 per metric ton, and another 7% increase to $610 per metric ton went into effect July 1, 1987. As Gannett Co. vice chairman Douglas H. McCorkindale notes, a recent fire wiped out a key New Zealand paper mill and took some 200,000 metric tons of newsprint out of the U.S. market, and large new paper mills under construction aren't scheduled to operate

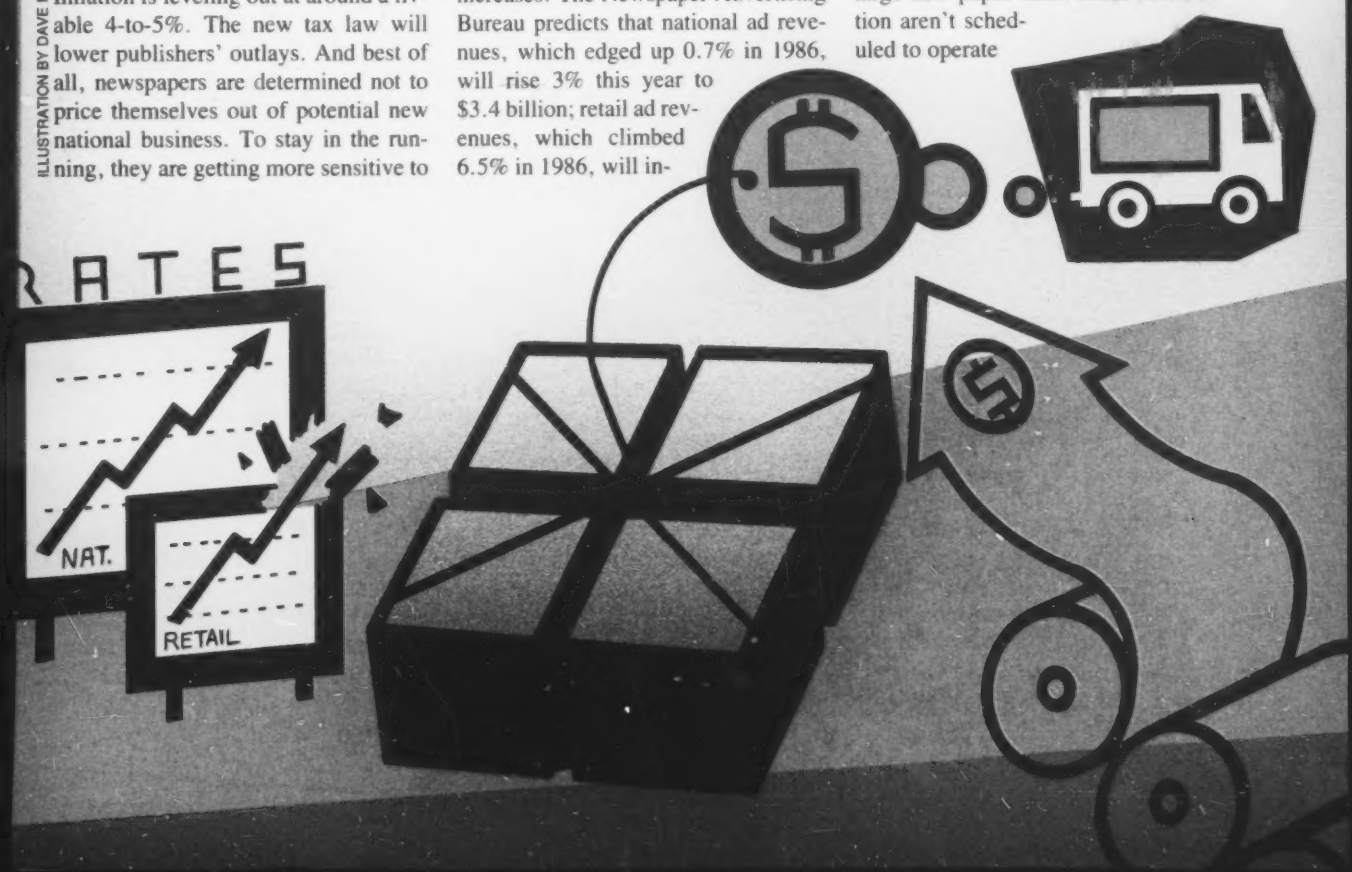

ILLUSTRATION BY DAVE FLAHERTY

until 1989 at the earliest. Weaker U.S. currency, he adds, offers foreign suppliers the choice of focusing on customers with more favorable exchange rates, or charging U.S. buyers more.

In fact, newsprint may only get tighter. Papers are not only printing more pages of ads, they're printing more editorial pages, in part to support increasingly popular special sections. Newsprint consumption by such non-newspaper users as catalog and preprinted-insert producers has risen to the point where Canadian mills, which put out about 60% of U.S. newsprint, are functioning at 99% capacity, notes First Boston Corp. vice president and publishing analyst Kevin Gruneich. In all likelihood, Gruneich says, suppliers will put through two more price hikes by mid 1988, raising the cost for publishers by as much as 14.5%.

Preprinted inserters, too, bear a paper burden. An 8% coated paper price rise this summer, notes Product Movers president Kenneth Bortner, could cost the three main inserters — whose volume has grown steadily over 20% through this year — upwards of $250 million and force 1988 rates up from 5% to 10%.

Yet analysts report that newspapers are stabilizing their greatest cost — labor, which accounts for an average of about 40% of all expenses. "Newspapers are trying to cut back on staffing," says Bruce Thorp. Since "the trend continues to be away from strong unions," he says, many publishers "have been able to reduce overhead or at least hold it steady."

While the prospect of a 16% overall increase in postal rates may raise all papers' business and promotional costs and weeklies' distribution costs, it's not likely to cost dailies much more to get the paper out. Gasoline may go up between 5 and 10 cents a gallon by July 1988, thinks Conference Board analyst Kenneth Goldstein, but rig financing and fleet operating costs don't promise terrific rises.

Nor can the taxman carry away as much of publishers' takes. The new tax law drops publishers' tax rates on average from 47.6% to 46% in 1987, and ultimately as low as 40%, notes Goldman Sachs & Co. publishing analyst Eric S. Philo. While they give up investment tax credits and certain depreciations, he says, "it's a very, very modest giveup."

That sets the stage for the medium's efforts to break open new national business in 1988. Once again, planners point to one major obstacle for publishers to overcome in order to increase their national ad business: price, both high out-of-pocket cost and the preferred rates given to local advertisers.

How sensitive a point is this? Mike Gross, vice president, associate media director at J. Walter Thompson Co., for one, isn't even setting a contingency for newspaper rate hikes for his clients. "Newspapers' rates are so much more for national advertisers that they can't be considered as a vehicle for most because their out-of-pocket cost is so high."

For years, the medium has sent rates above the inflation rate and posted higher national than local/retail rate hikes. National rate hikes have been more severe from those papers that dominate the country's largest metro markets. National ads bring in only about 10% of their ad revenues, and they have the numbers to back up steeper hikes.

"But now newspapers think that the national category is where most of their growth may come from," says Bruce Thorp. "They don't want to overprice that category and drive off potential business. And it's major markets where newspapers have the greatest potential for increasing national ad volume." First Boston's Kevin Gruneich thinks differential sensitivity is so acute that "all papers, the dominant as well as the weak," will act to close the gap, while on average raising national rates 5%, retail 6% and classified 8%. A one-rate future is on the mind of Westchester-Rockland Newspapers vice president, advertising Peter M. Anderson, who thinks classified is more able to "withstand a strong price adjustment" than the retail market, altered in many areas by acquisitions. At Ottaway Newspapers Inc., for instance, vice president, operations Gerald T. Tache confirms that "to narrow the differential," the company looks to raise national rates only 1% to 2%, while keeping retail rises in line with inflation.

While Jerome Tilis, president of the *Detroit Free Press* and vice president, marketing for Knight-Ridder Newspapers Inc., fears that raising retail rates more than national penalizes the retailer and fails to lower a national advertiser's cost, he predicts national advertisers will benefit from "more

TOP TEN NATIONAL NEWSPAPER ADVERTISERS

Rank	1986 Investments	1985 Investments	% Change
1. General Motors Corp.	$146,430,000	$140,979,000	+3.7%
2. Ford Motor Co.	76,136,000	77,295,000	−1.5%
3. Texas Air Corp.	63,417,000	15,075,000	+76.3%
4. Philip Morris Cos.	57,589,000	78,013,000	−26.2%
5. RJR/Nabisco	50,347,000	73,321,000	−31.4%
6. Chrysler Corp.	42,203,000	42,000,000	+0.5%
7. American Telephone & Telegraph Co.	31,106,000	57,210,000	−45.7%
8. Trans World Airlines, Inc.	29,329,000	20,870,000	+28.9%
9. General Electric Co.	26,986,000	10,332,000	+61.8%
10. Allegis (UAL, Hertz)	26,900,000	19,987,000	+25.7%

Source: Media Records

creative pricing" in 1988. For instance, though devised to draw advertising away from the competing *Houston Post*, new frequency discounts from the *Houston Chronicle* that reward advertisers for "flighting," or running a block of ads within a short timespan, break new ground. "Thank heavens they finally woke up and started selling like that," says David Buckley, media director at W.B. Doner/Los Angeles. "Advertisers should be encouraged to accumulate reach in a newspaper, just like in any other medium."

For the industry, Tilis' pricing and positioning task force of the Future of Advertising Committee recommended in May a new series of standard breaks for advertising page-volume discounts that begin at the quarter-page level. Tilis' committee also recommended incentive rates as an industry strategy for enticing non-advertisers.

One big step taken this past winter was the packaged-goods rate plan. The formula called for papers to base a trial rate for packaged-goods advertisers (excluding liquor and tobacco) on appropriate retail rates plus agency and rep commission. Now being coordinated by the Newspaper Advertising Sales Association, the program includes papers with end-result rates landing between 20% and 25% above retail for 13-time schedules of at least a quarter-page.

Newspapers are increasingly sensitive to the rate differential.

Especially since it has fomented so much hype, sellers say, the packaged-goods plan has moved the industry to a kind of critical juncture. "Advertisers don't talk about newspapers putting hundreds of millions of dollars into improving their products over the last number of years," pipes Charles McNally, executive vice president, Eastern regional sales manager for rep firm Cresmer, Woodward, O'Mara & Ormsbee Inc. "Agencies have asked us for a number of things and promised tons of business would result. We've made the concessions, but we haven't seen the business."

At press time, no national advertiser had committed to a major schedule using the packaged-goods rate. But some had yet to receive the list of rates, and one agency media leader, Jack Cohen, vice president, director of print and outdoor media buying at DDB/Needham Worldwide, had yet to resolve what he sees as failure of some papers to submit rates in the 20%-25%-above-retail-rate range.

"All it will take is for one major advertiser to commit to a major packaged-goods schedule, and you'll see a whole different attitude from newspapers," says Donald H. Waddington, president of rep firm Branham Inc. Agrees Ferguson Rood, vice president for research and marketing at Cox Newspapers. "If we see results, the momentum will really take off."

FACE TO FACE WITH TOM WINNER

Thomas H. Winner is senior vice president, media director at William Esty Co. in New York.

On the importance of price: "Other media get reach and impact with relatively less expense and effort. That's a major consideration. The beauty of newspapers is their local appeal and the speed with which you can place an ad; the downside is the cost and short lifespan of the ad. Since it's more expensive to run the same ad many times in newspapers, you'd rather do it in tv."

On negotiation in newspapers: "We're always trying, but it's a difficult medium to negotiate. Often we're asked to place an ad in an awful lot of newspapers on a speedy basis. There are so many newspapers, negotiating becomes extraordinarily time-consuming. And so far you're mostly negotiating only for position."

On the packaged-goods rate plan: "The packaged-goods rate is a sign that publishers are decent businessmen: If someone dangles a big piece of potential business in front of them, they'll do it. Does this indicate a willingness to negotiate on their part? Of course it does. But not for anybody — for a huge piece of business."

On category rates in general: "Category rates are a dangerous precedent for newspapers to set. They can aggravate clients newspapers have had for years, because someone who hasn't been advertising for years is paying less. A better way to sell it is to go to those people who aren't in newspapers, find out why they're not advertising, and come up with a strategy to get them in — something other than lowering rates. Otherwise you're building a base of lousy clients — people that are in there just for low costs, not for good marketing need." ■

What has already taken off are efforts by other category advertisers, led by Continental Airlines and Joseph E. Seagram & Sons Co., to negotiate similar rates for their own business. That's in keeping with the way Michael E. Bienstock, vice president, associate media director at BBDO International, views the packaged-goods rate plan.

"Finally, the newspaper business is saying, 'We're listening, and we're willing to try out some exceptions,' " he says. "But if they don't open it up to other categories, they're essentially penalizing those advertisers in other categories who are already heavy newspaper users."

Now that the magazine industry rumbles with talk of closed-door rate and position deals, notes Jack Cohen, "clients are getting used to receiving discounts as rewards for big space commitments — they want to extend it to newspapers. The packaged-goods rate really means negotiation is coming." Cohen smiles — something he rarely does when the subject is rates —

"Papers are saying, 'We're listening, and we're willing to try.'"

Michael E. Bienstock
VP, associate media director, BBDO

and adds, "That's how we'll get greater cost efficiencies."

As Newhouse Newspapers vice president, sales director Richard Matula points out, the *Newark Star-Ledger* has extended its packaged-goods rate to other advertisers, and the *Cleveland Plain-Dealer* has extended its packaged-goods plan discount to all 13-time advertisers. "We are in a position now where most papers are willing to talk," Matula confirms. "Particularly with tv hurting, we're coming to where we have to look at how we can be flexible."

And last year, many newspapers answered an age-old, impassioned agency cry and passed some of the costs along to readers. According to the ANPA, at least 166 papers swallowed fears of lost circulation and increased their newsstand prices in 1986. But single-copy price hikes are especially sensitive matters, points out Cox's Rood, since both coin-operated machines and consumer convenience mandate increases in at least five-cent increments. Adds Tilis, "If you pass on to the reader all of the need for added revenue this year, but circulation goes down 5%, then the advertiser gets 5% less exposure for his money, which means a de facto rate increase."

What may change the complexion of the rate issue a bit is a movement by sellers to treat the newspaper more like a targeted medium and convince advertisers to look not at out-of-pocket cost but cost per prospect. "Advertisers say, 'Look at your price,' but look at what they pay for the Super Bowl," says CWO&O's senior vice president, director-creative sales development Donald Evanson. "If you look at newspapers against quality products, we're more efficient."

W.B. Doner's Buckley, too, would like to see advertisers look more qualitatively at the newspaper medium. "If you're constantly looking at out-of-pocket cost, you get a little twisted," he says. "That implies that one exposure will ultimately amount to the same thing as another exposure, and that's not valid. We should focus more on the way you *use* the medium; that's even more important than the bulk of money you're going to put in." ■

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RUNNING IN PLACE

Out-of-home is looking high and low for business to replace their lagging mainstays.

by Carol Hall

"We've had to run as fast as we can to stay where we are." David Rouatt, senior vice president of marketing for Gannett Outdoor Group, takes to quoting *Alice in Wonderland* to describe not only his company's lofty position in the outdoor industry, but the industry itself. With rate increases looking to stay in the zero-to-5% range, life is a struggle for outdoor sellers these days. Few are grinning like Cheshire cats.

According to the Institute of Outdoor Advertising, 1986 industry revenues totaled $1.275 billion, barely up from 1985. They are expected to reach $1.4 billion for 1987.

Cigarette and hard-liquor advertisers, the cushion on which outdoor rode for years, continue to pull dollars from the industry. They've left many outdoor companies scrambling to find new customers. Says Rouatt of the situation, "In the long run, the best thing that will happen to this industry is to have liquor and tobacco fade away and force the industry into much more aggressive marketing programs." He rails, "These people have fed off the tobacco and liquor business for too long, become too complacent and set their program up by the way they wanted to sell it — not how the advertisers wanted to buy it."

Elsewhere, legislative battles with anti-signage groups have been a headache for nearly twenty years and still go on. In addition, the infrastructure of the industry's main trade association has just been shaken up. The Institute of Outdoor Advertising in New York has been scaled back from twelve to five people. Largely a research and information arm of the D.C.-based Outdoor Advertising Association of America, the downsized IOA leaves New York agency people feeling somewhat deserted (see "Pro Files").

But there are some positive changes occurring, if slowly. There is a gradual development of new pockets of business to replace the fading booze and butt boards — packaged-goods companies, in particular, are seen as a white knight. There is consolidation in the industry in the form of mergers that promises the introduction of more ag-

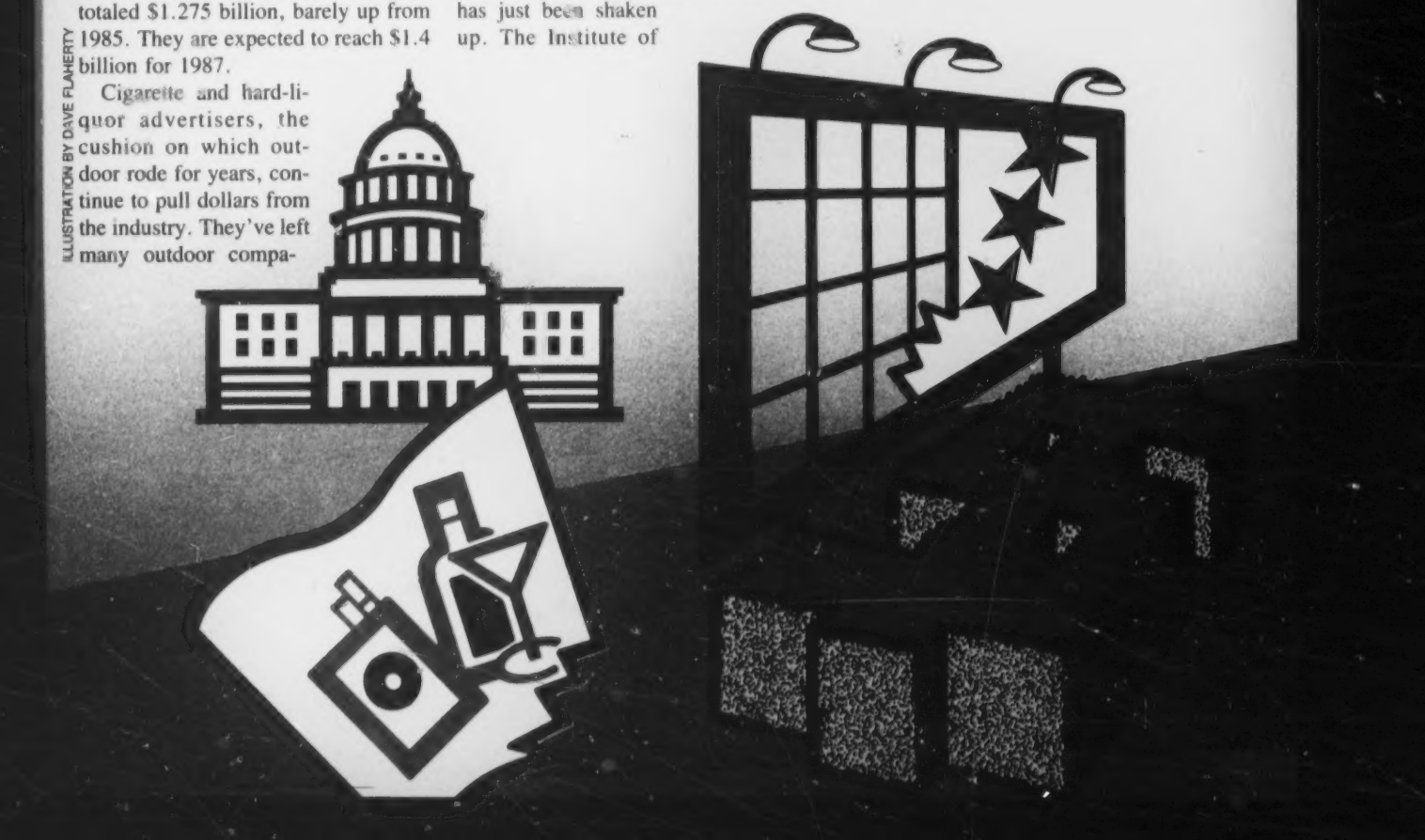


ILLUSTRATION BY DAVE FLAHERTY

gressive selling tactics. And there is a shift in business to the local front where space is moving much faster than it is nationally.

Still, "It's very much a client's market," says Pete Riordan, vice president/out-of-home media at BBDO. He pegs rate rises for 1988 in the 4-to-5% range. "But in the competitive markets, it's going to be a free-for-all," he adds.

Jack Cohen, vice president/director print and outdoor media buying at DDB Needham Worldwide, sees 1987 ending with a 5% rise in total. Next year's increase, he predicts, will probably fall short of that. "This medium's highly negotiable," he sighs, "and budgets are tight." He says that, especially for national advertisers, outdoor is seen as a support medium "When you see budget cuts, it's one of the first to go," Cohen notes.

Dick Briggs, director of out-of-home media at SSC&B, sees 1988 posted rates creeping into the 6% range. But, he chuckles, "what published rates and negotiated rates are going to be are two different things." He sees negotiated national rates showing virtually no increase from this year.

On the industry side, Gannett's David Rouatt says official rate increases for 1987 averaged 4%, but agrees those rates were largely "not achieved" due to the tobacco and liquor exodus. The diversified company, which casts a shadow over more than 50% of all boards in the country, expects to announce increases for 1988 of 3% to 6%.

Most companies, or plant operators,

OUTDOOR'S TOP TEN ADVERTISING CATEGORIES 1986

INDUSTRY CLASS	Outdoor Ad Dollars (000)
1. Cigarettes, Tobacco & Accessories	190,132
2. Beer, Wine, Liquor	62,840
3. Travel, Hotels & Resorts	58,460
4. Business & Consumer Services	57,397
5. Retail	52,289
6. Automotive, Auto Accessories/Equipment	50,995
7. Entertainment & Amusements	36,827
8. Publishing & Media	36,803
9. Insurance & Real Estate	32,929
10. Drugs & Remedies	11,241

Source: Leading National Advertisers

THE OUTDOOR VIEW FROM DICK BRIGGS

Dick Briggs is director of out-of-home media at SSC&B: Lintas Worldwide.

On tobacco: "Tobacco was particularly responsible to rate inflation in the past. They'll pay anything and that's been true in other media, too. In outdoor they'll pay the price and get the top flight locations. That affects pricing throughout the marketplace."

On tobacco's exodus: "Everyone seems to be writing off tobacco, but that ain't necessarily so. One of the reasons for its decline is that so much of their money is going into sales promotion. But they're not exactly abandoning outdoor. R.J. Reynolds has cut back, but they're still over $120 million in outdoor."

On new business: "The problem with the outdoor industry is that they have been so fortunate to get business over the transom over the years. They really didn't have to fight for the liquor business and in 1971, when tobacco was legislated off the tube, the tobacco companies came to outdoor. It wasn't the other way around."

On holding on to prime locations: "I'm a little bit surprised [tobacco and liquor companies] don't look at these as corporate properties. Look at Philip Morris and Marlboro. Why this hasn't spilled over into Miller, I don't know. There's not enough conceptual selling done out there by the (outdoor) industry. I'd think there would be tremendous opportunities with American Tobacco now that they're into financial categories.

"The trouble with some of these companies is that they retain their isolation (among divisions). Why don't they look for more continuity deals among brands? Outdoor is a sleeping giant: You buy it well and it's going to pay dividends." ■

TOBACCO AND LIQUOR: OUTDOOR'S SLIDING SHARES (000)

Year	Tobacco Outdoor	Total Outdoor	% of Total	Liquor Outdoor	Total Outdoor	% of Total
1982	$333,808	$ 887,911	37.6%	$131,383	$ 887,911	14.8%
1983	381,276	1,027,559	37.1%	129,472	1,027,559	12.6%
1984	347,941	1,128,260	30.8%	132,006	1,128,260	11.7%
1985	376,560	1,221,905	30.8%	112,415	1,221,905	9.2%
1986	349,448	1,275,669	27.4%	81,928	1,275,669	6.4%

Source: Institute of Outdoor Advertising

in industry lingo, announce rates for the year in October and put them into effect in January. This June Patrick Media broke the mold, rolling out both the customary wintertime increase of 3% to 4% *and* a June boost. And what a boost. Its prices increased between 7% to 9% for most of its markets. According to the company, June's increases were due to the strength of many of Patrick's local markets.

Patrick's vice president of marketing, Larry Cognetti, says '88 increases have yet to be decided. "Suffice it to say we've already had a price increase this year, and you can anticipate a similar increase for next."

In general there are a number of things that dictate costs: Sign maintenance, energy prices, labor costs and production prices are among them. Increases in those areas are expected to follow inflation closely in 1988.

One primary price determinant for the outdoor is leasing costs, the fees outdoor companies pay for the real estate their boards are on. They are starting to undergo some dramatic changes. Most leases have always been long-term, on the order of 15 to 30 years long. Predictions are that in the next five years, one third to one half of the inventory won't be where it is today. Outdoor companies are less inclined to be locked into long contracts due to changes in the geographics as well as the demographics of target groups and changes in traffic circulation. While the short-term thinking may prove more effective, is may also prove more costly.

Outdoor billboards come in a range of sizes, the two most widely used being 30-sheet boards (12' by 25.5') and eight-sheet boards (6' by 12'). Eight sheeters are common in urban neighborhoods, off the main streets. According to Ron Waggener, executive director of the Eight Sheet Outdoor Advertising Association, rates will rise a total of 4% to 6% for 1987 and hold a bit lower next year, not topping 5%.

He says the market is stabilizing itself somewhat after several years of 8% to 10% increases for eight-sheet. The aim of the market's boards is shifting, too. For years, black consumers have been the main target. Now, says Waggener, nearly 70% of their national buys are directed at blacks, but a full 20% are targeting Hispanic consumers. Ethnically targeted buys account for 5% to 10% of the outdoor industry's revenues as a whole, according to the Institute of Outdoor Advertisers.

COME TO RHODE ISLAND AND SEE IF YOUR CHICKEN CAN FLY ACROSS AMERICA.

To find out how their Zesty Wing line extension would fly nationally, Weaver rolled out in Rhode Island. Because Rhode Island's a near-perfect microcosm of America. With demographic and economic profiles that are remarkably close to the national norm.

What's more, the market's virtually immune to media spillage. And it's extremely cost-efficient. You can reach practically everyone in the market through Rhode Island's only major newspaper. At a CPM that's mere chicken feed.

For the whole story, call Bill Peckham at 401-277-7172 or write and ask for our free test market information kit.

The Providence Journal-Bulletin

Put America to the test.

75 Fountain St., Providence, RI 02902

Represented nationally by Cresmer, Woodward, O'Mara & Ormsbee

Shelter advertising, a nearly $20 million piece of the industry, is on the move, too. Most of the structures are bus shelters, though some airport shelters are located in New York.

"There will be a mushrooming in the number of municipalities that have shelter advertising," boasts Connie Barry, president of the Shelter Advertising Association. The approximately 4,500 shelter signs currently in the U.S. can be expected to at least double in the next five years due to increased demand.

Barry sees shelter rates for the 1987 topping off with a 4% increase and repeating that boost in 1988. Labor and maintenance costs figure heavily into charges, as do franchise fees shelter companies pay the cities they operate in. The fee is calculated as a percentage of billings the companies generate and vary between 5% and 23% (in Miami Beach) across the country.

Helene Goldfine, vice president/director of marketing at Winston Network, an out-of-home company with a variety of signage, says the company's price increases for all of '87 should be in the 5-to-6% range. Over 60% of Winston's business comes from signs that are part of the country's commuter rail systems, whether they're in train coaches, on platforms or in terminals. They also control signage on the inside and outside of buses, on telephone kiosks, on taxis and even have some of the more traditional eight-sheet and 30-sheet boards in a few markets.

Next year, Winston's increases are expected to come in below 5%. Not only do labor and maintenance costs figure into that, but so do fees to the various transit authorities. The company, which was bought out by the employees last December, expects to change its name to American Media Network by the end of this year.

Right now, the tie that binds all these out-of-home elements together is the search to replace lost tobacco and liquor advertising, ads that dominated over 40% of the industry's best boards for more than a decade. According to the Institute of Outdoor Advertising, tobacco and liquor advertisers slashed their budgets by approximately $60 million in 1985. Industry estimates put that figure at about $80 million in 1986. The choices spots should be easy for outdoor reps to move. Pete Riordan at BBDO, however, warns costs will be rubbery for awhile. "There's nothing in the immediate future that's going to take up all that slack."

Other advertisers are beginning to surface as possible replacements. Campbell Soup has received a lot of attention for its outdoor effort with Chunky Soup, for instance. Procter & Gamble is out there, too, testing Crest toothpaste, Scope mouthwash, Crush soft drink and Solo detergent. Del Monte is trying some juices and canned vegetables on billboards, and Hanes hosiery is making forays into outdoor. General Mills' Cheerios have been in board tests, and Kraft, a big-board user in the days before the tobacco industry aced many of the best spots, is reportedly considering taking its mayonnaise

YOUR MEDIA BUY IN FLORIDA COULD BE AS USEFUL AS SAND.

Beach sand helps Florida make billions each year, but without the water, it would be worthless — like a media buy that doesn't hit its target. There are a lot of good newspapers in the Tampa Bay area, but one, The Tampa Tribune, gives you:

- more 25-49 year old readers
- more readers in top level occupations
- more readers with a $35,000+ employment income
- more readers with high food expenditures ($150+/week)

The Tampa Tribune taps you into Florida's number one market in terms of population, households and effective buying income.
You can make a lot of buys in the Bay area, but if they don't hit your target market, you might as well be selling goods in a desert. To reserve your ad in The Tampa Tribune, call: General Advertising Manager, Joe Gess, at (813) 272-7447, or contact your nearest Sawyer-Ferguson-Walker office.

Source: 1987 Scarborough Report, Tampa/St. Petersburg/Sarasota.
c The Tampa Tribune, 1987

THE TAMPA TRIBUNE

©The Tampa Tribune, 1987

out-of-home. Benetton clothiers has used boards across the country and Anheuser-Busch is putting more money into the industry. Other new-business possibilities include health-maintenance organizations, national real-estate operations, cosmetic and pharmaceutical companies and financial service companies.

It should be emphasized, though, that while many of those have shown interest, the signing of long-term contracts by many has yet to occur. According to the IOA, over the past couple of years, more and more companies are "testing" products on billboards, holding off on long-term outdoor commitments.

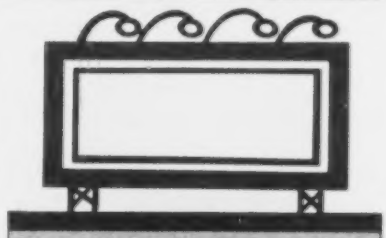
There are some technical innovations in the industry worth taking note of, too, as they will be having an increasing impact on costs.

Computer painting is an effective way to not only cut costs, but improve four-color quality and ensure better quality across the country. Plants say it not only improves their efficiency, but also helps them keep labor costs down. Gannett reports that in a strike situation, plant operators have been able to hold out longer because they can merely farm out the work to outside computer-painting studios.

Backlit signs, where the lighting is housed in the board and shines through the ad, are increasingly popular. Unipole signs are popping up more, too. This concept is no more complicated than shrinking the number of support poles that hold up a board to one. Voila: A company can rotate its sign.

Super Flex, a plastic material trademarked by Gannett, has the industry abuzz. It replaces the multi-sheet paper approach with a seamless sheet of plastic. It not only has a far greater lifespan, but can be taken off a board, rolled up and shipped to a board in another state, if need be. So far, at up to 20% more expensive than its paper counterpart, its main drawback is cost. But as more Super Flex equipment is manufactured, the cost of producing it should fall.

Changes in the industry's infrastructure, in the form of company mergers, continues. It is likely to mean more organized sales forces. Patrick Media Group was formed in late 1986 and, operating in 37 markets, is the largest outdoor company in the U.S. in terms of revenues and number of boards. Shortly after its formation, it hired nearly 50 salespeople and immediately put them on the streets to boost local business.



1987 COST/PANEL RATES

New York	$545
Los Angeles	464
Chicago	459
Houston	319
Atlanta	370
St. Louis	454
Tampa	322
Kansas City	416
Indianapolis	400
Harrisburg	460
Mobile	333
York	375
Des Moines	352
Spokane	313
Tallahassee	330
Amarillo	232

All costs based on a 100 GRP showing
Source: Institute of Outdoor Advertising

This year, it began a new business division. With skeleton crews manning offices in New York, Detroit, Atlanta and Los Angeles, its sole aim is to stir up new clients for the company — not something the industry has put much effort into in years.

For now, while the industry is cautiously optimistic about developing new national client categories, it is looking to fill in the gaps on the local level. "The real growth is in local," claims John Mathis, vice president/national sales for Patrick Media. "We've experienced a decline in national — local is the only place to go," he says. He adds that "It's a quick fix, but not necessarily an easy fix. If you want to see a rise in local, it really requires putting a lot of feet on the street."

Some say it's a mistake to put off the development of more national business. Others point out that it takes a while to build national business. For one thing, if a plant misses a client's media planning period, it has to wait a year for another chance. A board sold to a local merchant can have a faster turn around time, too, allowing for an outdoor company to make up some of those lost revenues in short order.

Aside from the fact that a national campaign is more profitable for an outdoor company to run, the industry needs to sow the seeds of future prospects. It can't afford to waste time reminding media planners that it *is* a national medium.

And speaking of more aggressive sales techniques, some of the larger lithographers — yes, lithographers — are getting into the act. Some of them are going directly to clients to encourage the formation of co-op arrangements to generate more business for their plants. Co-ops have been around in this industry for years and work the same way they do with other media, with an advertiser and its distributors sharing costs. Many industry observers are critical of the outdoor companies for not promoting co-ops more themselves.

Of course, there are those who would be happy if the industry didn't promote co-ops, or any other kind of new business. Since the passage of the Highway Beautification Act in the 1960's (a.k.a. the "Lady Bird Bill"), various anti-signage groups have sprung up locally and nationally, the most powerful being the Coalition for Scenic Beauty. Due to their efforts, the Federal Highway Administration reports sign inventory went from 1.1 million in 1966 to 500,313 in 1985.

Despite the belly-aching about these groups, all admit that the industry's savvy team of lobbyists is extremely effective at steering it clear of the legislative rocks and keeping a good portion of signage right where it is. ■

THE COMPETITIVE EDGE

More competition in the yellow pages industry has wrought what John Maynard Keynes preached: lower prices and more business. But some national advertisers still have complaints.

by Rebecca Fannin

Before the Bell system was broken up nearly four years ago, it was nothing for the 19 regional phone companies to tack on 10% annual hikes for national advertising in the company's 5,600 yellow-page directories. Advertisers didn't exactly turn the other cheek throughout the 1970's and early 1980's, but in the end, they did pay up because they really had no choice. The utility books had no competition.

That sure has changed. This year, there are more than 200 publishers and as many as 7,000 directories.

National advertisers are finally in the driver's seat. "The greater competition is having a moderating effect on rates," says Herbert Gordon, senior vice president, media services at Ketchum Advertising. "It's terrific for the advertiser. With these moderate increases, it's easier to plan media buys in the yellow pages." Gordon is also president of Ketchum Yellow Pages.

The rate of increase has slowed to about 5% this year and, for next year, it's forecast to rise by another 4%. But to many national advertisers and their ad agencies, the fact that rates are still going up remains a sore point. "If there is more competition, we'd like to see rates more competitive," argues Robert Burch, marketing manager of consumer services at General Electric.

The only discounts are coming from the new independent directory publishers such as Reuben H. Donnelley, which formerly acted only as a selling rep for the medium. "Many of the competitive independent directories are offering 40% to 50% discounts on their books, or are offering one free ad with a buy," says Bruce Altman, director of yellow pages at Bozell, Jacobs, Kenyon

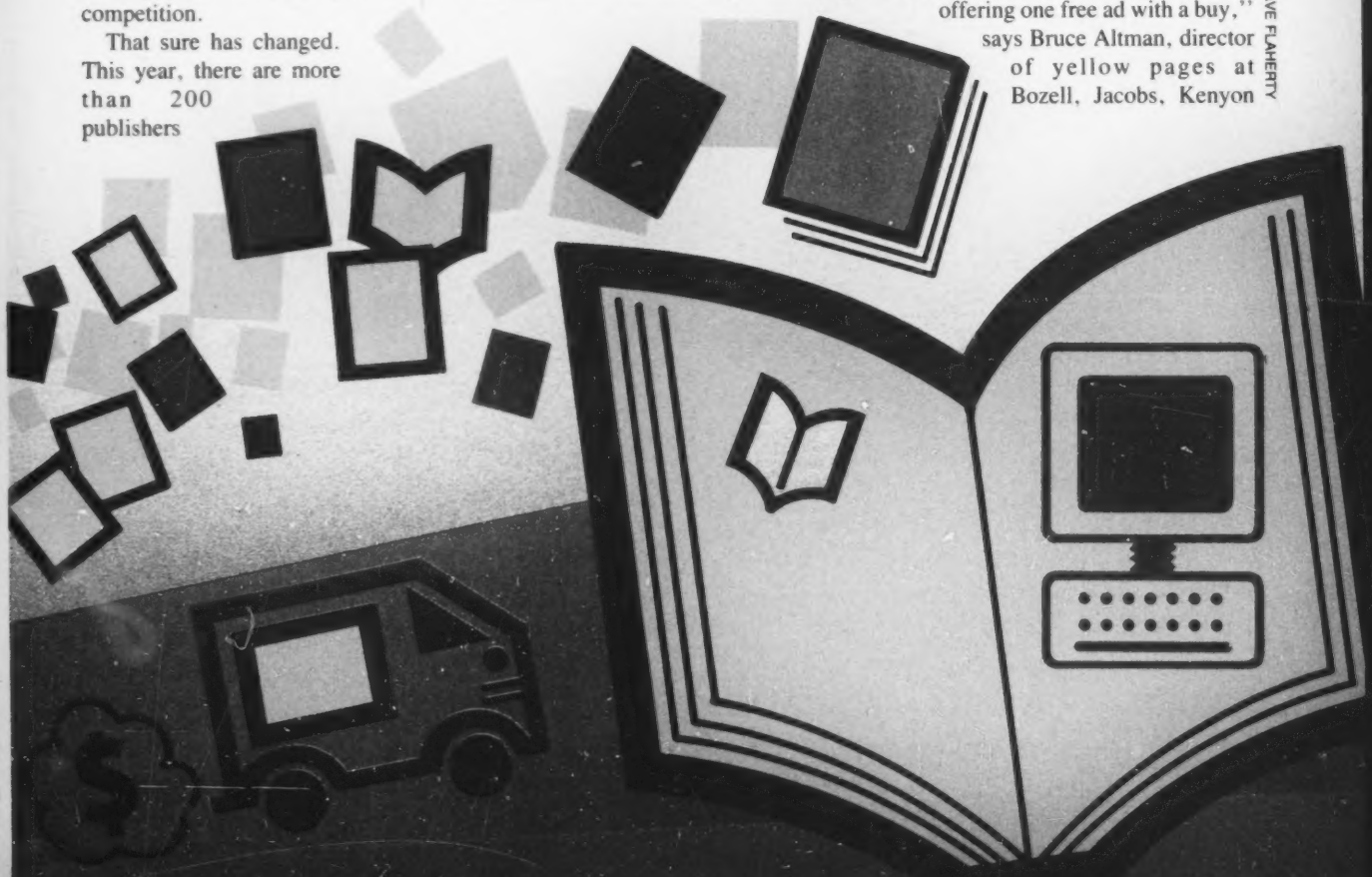


ILLUSTRATION BY DAVE FLAHERTY

& Eckhardt.

What irks advertisers is that the main utility books haven't responded with better deals for them, too. "The utilities had been going along gaily charging 10% or more each year," adds Altman. "Although with competition, they don't dare do that anymore, we still believe the increases are high."

Advertisers and their agencies also point out that directory publishing is a very lucrative business. According to PaineWebber financial analyst Donna Yeagers, pre-tax profit margins for yellow-page publishers hover at 20%. She notes this is one reason why so many newcomers have jumped into the field.

The fact that the cost to publish a yellow-page directory hasn't increased by much in recent years also is a bone of contention among national advertisers. Expenses for paper, one of the largest cost factors for publishers, actually decreased last year by 7%, notes Norman Weiner, vice president at Walker Weiner Associates, a paper cost estimator in Briarcliff Manor, N.Y. Weiner, however, is predicting a 5% raise this year and another 5% shot in 1988.

The cost to distribute the yellow-page directories also hasn't risen enough to justify the large ad hikes, national advertisers contend. But Martin Healey, controller with Product Development Corp., which distributes half the Bell directories, disagrees. He points out that the distribution cost per book over the past five years has risen from 15 cents or 20 cents to a quarter or slightly more today.

The low unemployment rate has been the chief culprit, says Healey, explaining that the firm has resorted to using temporary services to find workers 18 or older who have their own cars to distribute the books door-to-door. Since it is harder to find workers, many jobs drag out longer, which in turn causes rents for drop-off points like halls or storefronts to go up. Healey also says costs have gone up because today's smaller cars, which can't hold as many directories, have to make more trips.

In the future, though, it will be harder for publishers to point to increased production costs as the reason why rates should go up. Many publishers are beginning to use mechanized graphic systems to produce type and art. Computers spit out near camera-ready work that is printed with lasers for sharp quality.

At Southwestern Bell, which has recently implemented the process, executive vice president Ron Jennings

A CONVERSATION WITH MARY MacDONALD

Mary MacDonald is vice president and director of yellow-pages advertising at DMB&B.

On rates: "The rate increases have been going down in recent years. For instance, in 1981 and 1982, the increase was 14.3%. But for 1986, the increase was 8% and in 1987, the rate increase has been 4.3%.

"Rates have gone down because of the competition. Many of the competitive independent directories are charging as much as 40% less than the main utility book. The utility directories are not lowering rates, but they're not raising them either."

On additional services: "The directories are offering more options in the type of ads to place. For instance, we were restricted from listing multiple dealers in the smaller ads. But some directory publishers have relaxed this rule now so that the advertising costs can be split up among the dealerships.

"Also, many books have become more useful. For example, some provide such information as stadium seating arrangements and zip codes delineations. This extra value makes for a more cost efficient buy."

On competition: "Competition is already leveling out. Reuben H. Donnelley, one of the largest independent directory publishers, has cancelled plans to have books in California, Florida and in Texas areas outside of Houston. I believe most markets will end up with two or three good directories each."

On the utility books' edge: "These will remain the dominant ones, in part because they have the best data base. Even though they rent their lists to other directory publishers, they keep their own lists more up-to-date.

"Another important factor is that many of the independent directories are carrying ads from people who can't list in the utility books because they're on a pre-paid basis. A lot of these independents carry so many free ads that they are absolutely not viable. And they are becoming smaller and smaller with each issue."

On increased budgets for competitive books: "Even with the new competition, what we still generally recommend is the utitlity book. Then, we will advise placement of a smaller ad just for coverage of the market."

On cost effectiveness of specialized directories: "We've discontinued advertising in the Silver Pages for two of our clients. In our market research, we found that a lot of people didn't know what it was. Also, many older people disliked the idea of referring to separate directories." ■

NATIONAL YELLOW PAGES REVENUE GROWTH

Year	Revenues (millions)
1986	759.0
1985	694.5
1984	580.0
1983	488.7
1982	432.7
1981	379.9
1980	330.4
1979	281.8
1978	241.4
1977	208.3

Source: National Yellow Pages Service Assn.

says that, while the initial investment in equipment is high, the fully automatic system reduces labor costs. "We had projected that we would have almost three times the number of clerical employees we have to put together our directories today," he notes. "But we have been able to hold the workforce constant."

"How do they keep increasing the rates when inflation and other major costs are going down?" asks one disgruntled advertiser. The Consumer Price Index shows inflation of only 2% last year and 5% currently due to spurts in oil, food and commodity prices earlier in the year. Next year, according to Chase Econometrics, inflation should average slightly less than 5%.

For their part, publishers of the utility yellow pages reason that their advertisers get more for their money today because they have added more service features. In response to the independent surge, many utility books have seen fit to add such extras as zip-code listings, stadium seating arrangements and mass-transit guides.

"Besides the market coverage of the book, one of the major cost factors we consider is the usage of the book," says Phil Unger, director of marketing at US West Direct. "We have been adding 24-page sections to our directories, including a four-color map of the area," he notes. "This increases the usage of the book."

Not all advertisers are swayed by this pitch. "Yellow pages are still chiefly used as a shopping guide for an immediate service. For instance, if one of your appliances breaks down, you're going to look for a repair shop, not thumb through extraneous pages," argues the director of one of the larger yellow-page national advertisers.

But advertisers are having more trouble picking holes through the utility publishers' argument that their book is still the dominant force in virtually every market. That's in spite of such well-publicized and advertised moves as Southwestern Bell's forays into Manhattan last year, a move the company followed in Baltimore and Washington, D.C., this year. While Southwestern's Jennings says the books have "met projections," large discounts of 40% to 50% were the required bait for advertisers.

National advertisers are quite skeptical of these newcomers. At least one ad agency, Ketchum Advertising, has researched the usefulness of the independents and the conclusions are not so favorable. According to Ketchum, consumers say they refer for help from the main utility book 70% of the time. That compares to 30% for the upstarts.

Many advertisers also believe that the plethora of directories that have emerged in many markets (everything from the Silver Pages to boating and skiing directories) are not that valuable to consumers. "Consumers are creatures of habit and they want to deal with one book," says Darlene Swan, exhibits and promotion specialist with Greico Corporation, a pumping and spraying equipment manufacturer. "That's why we're not abandoning the proven book. The utility books also have a better track record with readership studies," she points out.

Undaunted, the independent directory publishers are proving relentless. Even though some have cancelled plans for further expansion, many are trying to influence buying decisions by offering the ad agency and/or authorized selling rep (ASR) larger commissions. "The commissions generally have been about 24% for an ASR, with the agency taking 15% of that. Now the new books are offering 35% for the agency and ASR," says Bozell's Altman.

Still, national advertisers wonder about the long-term viability of books that offer such discounted rates as a lure. The chief worry is that the independents, which often sell display ads and headings without pre-payment, will end up publishing listings only from financially strapped advertisers who may not even be in business once the book is published.

The new competition has brought some progress that national advertisers are pleased with. One area is syndicated measurement of audiences for yellow pages. Fairfield, Ct.-based Survey Sampling Inc., a market research supplier, is committing $1 million to start a third-party measurement this fall, with the first report out by the end of 1988. The plan

"We endorse the idea of syndicated research 100%."

Herbert Gordon
President,
Ketchum Yellow Pages

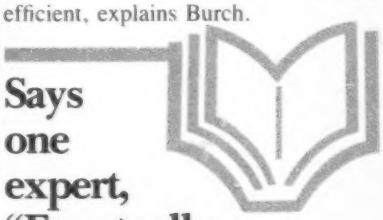
is to measure the top 20 markets every year with 60 other markets to be sampled every three years. Findings will come from a minimum of 45,000 phone interviews and 22,000 mail questionnaires each year and will supply a wide range of usage data.

Virtually every medium other than yellow pages already has syndicated audience research. But yellow pages' lack of it has not prevented national advertisers from spending $759 million in yellow pages, an increase over 1985's $695 million. Though still a small part of total yellow-pages revenues — which hit $6.2 billion in 1986, an 11% rise over the previous year — publishers see national advertising as the growth area.

But having an impartial accounting of the yellow pages' usefulness could mean even more revenues. Says Ketchum's Gordon: "We endorse the idea of syndicated research 100%. We need an unbiased, outside force that is highly regarded. Our clients are asking for accountability."

On another accountability front, advertisers are also cheering the stronger enforcement of ad claims and trademarks usage. "You can find misleading information in the yellow pages, like shops that advertise they are open 24 hours or the use of logos of other companies," says GE's Burch. "We have been trying to get publishers to guard against this."

Whether it's a result of increased competition or not, at least two publishers, US West and Nynex, are beginning to exert more pressure on advertisers to provide correct information about their services. This makes the medium more credible in the long run, which also makes it more cost efficient, explains Burch.



Says one expert, "Eventually, all of the directories will be electronic."

Other improvements in the medium also are keeping advertisers from becoming more agitated about the increased ad rates. "If you would like to play *Star Wars*, eventually all of the directories will be electronic," says Bozell's Altman. "The only reason it hasn't worked so far is that not everyone has a computer."

Proving that imagination is as important as technological gains is the talking yellow pages. Developed by Nynex for an Albany, N.Y., trial area, it too provides nearly instant additional information about a listed advertiser. Consumers need only dial an information number in the advertisement on each printed page to find out more about details. Advertisers are hoping to see other talking yellow pages take hold, since the cost is only slightly more than a regular listing. ■

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MEDIA COSTS/DIRECT MARKETING

TAKIN' A LICKIN'

Direct mailers could get pasted by a hefty postal hike.

by Rebecca Fannin

Just when direct marketers had grown used to only moderate increases in the cost of doing business over the past two years, along comes 1988.

Business expenses for direct marketers during 1988 are expected to rise by as much as 10%, even though general inflation rates are only forecast to hover around the 5% level. The otherwise-healthy direct mail industry, whose revenues grew 10% last year to $17.2 billion, and are projected to rise another 7% next year by McCann-Erickson, is pointing the finger of blame at the U.S. Post Office.

More typical increases of 4% are projected for other key expenditures like list rental and paper. And due to the breakup of the American Telephone & Telegraph Company, slightly lower rates can be found for telemarketers who use a high percentage of long-distance calls.

But this news hardly makes up for the blow of the proposed and expected 25% hike in third-class mail costs. With postage accounting for at least 20% of many direct marketers' costs, mail order houses are under pressure to either make other elements of their marketing package perform more effectively or to raise merchandise prices to consumers.

There hasn't been such a large increase in postage rates since 1971, due in part to strong lobbying efforts by the Direct Marketing Association. In fact, there haven't been any postal increases since the 13% hike in 1984. That is just one of the many reasons why this proposal should be particularly tough to beat.

The U.S. Post Office is justifying the asked-for rise from results of a recent study. The report shows that the largest customer — third-class mail, which represents 51% of total revenues — has been undercharged.

The post office study was spurred in part by the American Newspaper Publishers Association (whose members compete for ad inserts with companies like Advo Systems Inc. and its Marriage Mail program). The gist of the study's findings is that because of the increased volume of mail today, postal carriers are spending more time actually delivering envelopes and

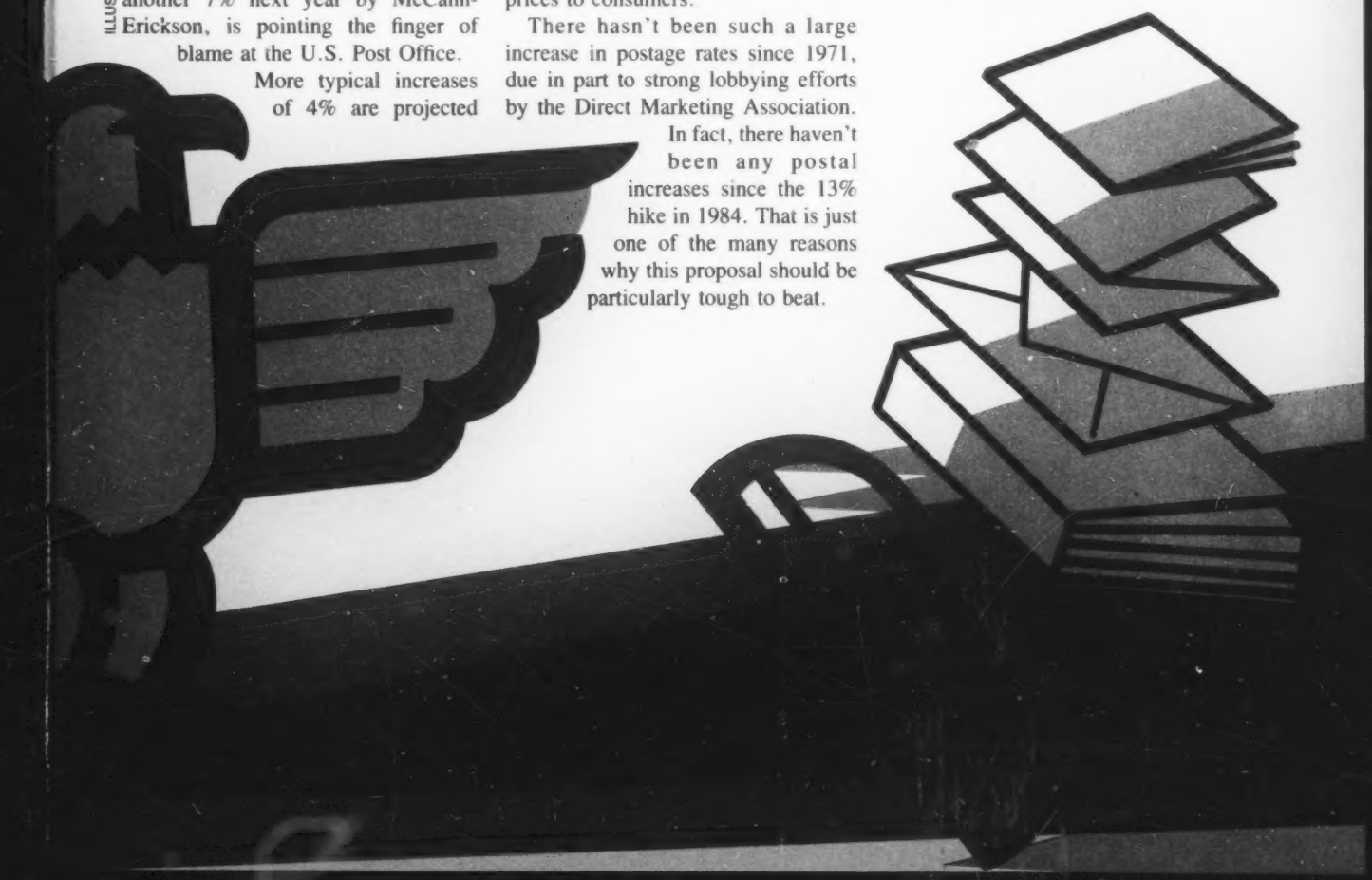

ILLUSTRATION BY DAVE FLAHERTY

packages than in walking the route.

Therefore, more costs can be attributed to certain classes of mail. Third class is coming under a lot of heat partially because the post office wants to avoid raising the price of a first-class stamp beyond a quarter for the first ounce. Secondly, because third-class mail is booming — it grew by 13% in 1985 and 10% last year — the post office figures that more of these attributable costs should be passed on to this type of mail.

"It's going to be tougher to fight this proposal," affirms Dick Barton, chairman of the DMA's government affairs committee. "There is more justification for a cost increase." But Barton plans a full-scale lobbying attack based upon a study of the postal service's revenue requirements. Another bone the DMA has to pick with the postal service is the percentage of mail that is not delivered. According to the DMA, this figure ranges from 3% for an endorsed envelope with return postage guaranteed, to 10% for a catalog and 20% for a coupon mailer. A decision on rates is due March 1988.

Many direct marketers are already preparing for the worst. "We expect our mailing costs to climb by $10 million next year," says Michael Fisher, vice president at the large mail-order firm, Fingerhut Corporation. Fingerhut uses third class for solicitations, first class for correspondence and fourth class for shipping. First-class mail is projected to increase by 14% and fourth class by 15%.

TEN LARGEST U.S. MAIL ORDER ADVERTISERS

Company	Revenues (millions)
Sears, Roebuck	2,062
J.C. Penney	1,932
Time Inc.	1,868
United Services Automobile Assn.	1,589
Geico	1,396
Reader's Digest	1,250
American Can	1,133
Capital Holding	1,024
American Automobile Assn.	1,000
Otto Versand (Spiegel)	890

Source: Marketing Logistics

With third class accounting for nearly half of the furniture and apparel merchants' costs, however, it is coming under the closest scrutiny. "There are new discount structures in the third-class proposal," notes Fisher, "so that if you mail 10 pieces within a zip code region, you qualify for a discount from 16.5 cents piece to 13 cents." But, he moans, "even though we mail nationwide, we send out so many pieces at different times of the year that it will be difficult to qualify for the discounts."

Herb Gertz, a vice president at Donnelley Marketing, distributor for the Carol Wright coupon program, also is bracing for a 10% increase in operating costs as a result of the postal increase. "We will have to charge more to our customers if this cost increase does go through and it will weaken us competitively," says Gertz. Direct mail programs like Carol Wright deliver about 4% of the total coupons distributed, compared to 70% for free-standing inserts, which are delivered with newspapers.

Because of the likelihood that direct dealing off the rate card. As for television, we find it very cost-effective. For instance, a 120-second spot is approximately 30% of the cost per thousand of a 30-second commercial. A 6 second commercial is 20% of a 30-second's cost per thousand."

A CONVERSATION WITH IRIS SHOKOFF

Iris Shokoff is the executive vice president of Grey Direct, the fourth largest direct marketing agency in the U.S.

On the proposed postal increase: "The Direct Marketing Assn. has a very strong lobby, so the rates proposed probably won't go through. But if they do, they could put small direct marketers out of business. You can make up the difference by passing along the extra costs to consumers, but this isn't always a viable option. Besides, margins are already low."

On direct mail alternatives: "If marketers are priced out of direct mail, they can look at direct response television and print. And print is more negotiable since *McCall's* has begun

On list costs: "They've increased but not disproportionately. But often, the lists aren't kept as up-to-date as they should be. Also, the onus is on direct marketers to screen lists. They need to mail more frequently to better customers and build up a personalized two-way communication. And with computers providing more sophisticated information about consumers' purchasing habits, it's easier to be establish this relationship."

On paper costs: "There hasn't been a paper shortage in three years, and that was minor compared to the infamous one in the 1970's. So paper costs should be stable." ■

marketers will be smacked with large mailing increases, many are looking beyond the mailbox. "To the extent that these postal increases make direct marketing less effective, then it will lead to direct response space and television advertising," points out Jim Kobs, chairman of Kobs & Brady Advertising.

Direct response media, however, could fall under cost pressure next year, too. With the 1988 Olympics and the presidential elections, tv air time is likely to be at capacity, points out executive vice president Iris Shokoff at Grey Direct. But she believes that direct response, which is sold at a heavily discounted rate but which is pre-emptible by a full-paying spot, will still remain a relative bargain.

Magazine costs for direct response aren't expected to be troublesome though. "While the cost of magazines has risen in the 1980's as compared to the 1970's, we still believe that in print, we will be able to buy remnant space at heavily discounted rates," says Shokoff. "The only trade-off is that you have to be flexible about what positionings you can get. But with rates being negotiated now, we will be looking for greater savings," she adds.

Those who stick with direct mail may ultimately be forced to absorb the additional costs simply by mailing more effectively. "My own opinion is that the postal costs will be a difficulty, an added dimension to the challenge," says Henry Johnson, vice-chairman of mail order catalog, Spiegel, Inc. "When most mail order solicitations only get a 2% response rate, then there is still a lot of mail opportunity left, and this has nothing to do with the postal increases," he argues.

At McCann Direct, general manager George Lynaugh recommends that very slight changes in the direct mail package can make up the difference in postal rate increases. "One of the cost reductions we recommend is, instead of using laser printing lettering for a personalized salutation, use a matchfill or preprinted salutation. There are considerable savings and a barely noticeable difference," Lynaugh advises.

At the Signature Group, a health and life insurance direct marketer, ways of absorbing the cost increases are also being studied. Marketing services manager Linda Beher reports that one method they are looking at is whether to enter into longer-term contractural arrangements for pieces of the direct mail package, like the address. "At the moment, we bid every job, but we think we could get sharper discounts if we group a client's jobs together with longer terms," she explains.

With postal costs a pressing concern, direct marketers are looking to other key cost areas such as list rental for possible savings. List rental accounts for approximately 16% of mailers' expenses. List prices have been relatively stable, approximately $60 per 1,000 names, according to Ralph Stevens, president of list manager, Woodruff-Stevens & Associates.

Direct marketers should also breathe a sigh of relief at the stable outlook for paper and printing production costs, which eat up another 30% of direct marketers' budgets. Paper costs for the coated stock most direct marketers use showed a slight decrease toward the end of 1986, according to Norman Weiner, vice president of Walker Weiner Associates, which makes paper costs estimates. "More recently, however, they have readjusted upwards," says Weiner, "and we expect slight increases toward the end of the year of 3.5%."

Driving the additional costs are increasing demand for paper in 1988, a year of both a presidential election and the Olympics. But counteracting this factor is the arrival of imported paper to ease shortages. Weiner estimates that imported papers supply 8% of the market needs.

Because of the crunching cost increases expected in mail, however, direct marketers are searching to cut their paper budgets further. "We are looking into the possibility of buying our own paper," says Signature's Beher. "It's currently purchased through the printing plant and there is a 3% to 5% markup," she says. "That can be considerable since paper is half of our printing cost."

Telemarketing expenses are also mitigating. According to Fred Tregaskis, president of CCI Telecommunications, the cost of nationwide campaigns should be level next year after falling shortly after the AT&T break-up. The average hour-long business call is $100 an hour. The only offsetting factor, he notes, is the higher cost of local calls as telephone companies ease more expenses over to this part of the bill, which was subsidized in part by higher long-distance rates.

The ultimate cost efficiency challenge for direct marketers, however, is finding ways of making the direct marketing messages more valuable to potential buyers — and therefore avoid waste. Says Spiegel's Johnson: "Only about 30% of the nation buys by direct marketing. To run cost-efficient operations, we need to search out new buyers, make our offers tempting and turn them into frequent purchasers." ■

WHERE THE DOLLARS ARE
Direct Marketing's Ad Expenditure Profile, 1986

SHARE BY ADVERTISERS		SHARE BY TYPE		SHARE BY MEDIA	
49%	Mail Order	88%	Consumer	49%	Catalog
28%	Retail	10%	Business	40%	Direct Mail
12%	Publisher	2%	Mixed	5%	Magazines
8%	Manufacturer			3%	Newspapers
2%	Wholesaler			2%	Television
1%	Other			1%	Other

Source: Direct Marketing Association

MAGAZINES

by Deborah Solomon

Associate media research director, J. Walter Thompson USA

OUT ON THE LAUNCH LIMB

No one knows exactly how many new magazines are launched each year. The latest *Guide to New Magazines* by Samir Husni lists 372 titles that debuted in 1986. His statistics are based on a comprehensive review of newsstands and publishers' notices, and they include annuals and one-shots. Between 300 and 400 regularly scheduled publications are announced each year in the trade press, but only half actually make it to the first issue.

The number of successful launches is smaller still. A review of the current Standard Rate and Data Service (SRDS) shows that only about 100 of the 100,000+-circulation magazines that have been launched in the past ten years are still around today. The major success stories in this group include: *American Health*, *Country Living*, *Country Home*, *Self* and *Home*.

Media planners are often asked to evaluate new magazines as advertising vehicles. Obvious criteria such as target market, editorial content, circulation and cost are usually considered. In addition, many planners are asked, "Will this new magazine be a success?"

What causes some magazines to succeed when so many fail? One important factor is the credibility and reputation of the publisher. An experienced publisher has established distribution channels, sales outlets and, most importantly, financial muscle. These factors, however, are still no guarantee of success. Recent failures by major publishers include: *Picture Week* and *TV/Cable Week* (both from Time Inc.); *Spring* (Rodale); *Science Digest* (Hearst); *Families* (Reader's Digest); and *Panorama* (Triangle).

Another important factor in a new magazine's success is how well the magazine fills an unmet market demand.

Successful publishers tend to conduct a great deal of research to make sure there is a market for the proposed publication and that the market is big enough to support the publication. When there is a market niche, usually several publishers will come in with magazines. The current proliferation of parent and baby magazines or 1984's rush on computer books are good examples of this.

However, most markets can only support a limited number of publica-

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tions. In the parent/baby field, there already appear to be too many new publications for the size of the market and a shake-out has started to occur. This was the case in the computer field in 1985.

Some of the other factors that improve a magazine's chances are:

- *A well conceived and executed editorial focus and marketing plan.* This point is obvious. If the publisher does not have a clear editorial focus for the magazine, readers will be confused and may not return for subsequent issues. Furthermore, the editorial should be consistent from one issue to the next to maintain reader loyalty. If the marketing plan is unfocused, the magazine won't get into readers' hands in the first place.
- *A target that is attractive to advertisers.* About half of most consumer publications' revenues come from advertising. Advertisers use magazines that reach their target markets.
- *Circulation goals that are realistic and attainable.* Most magazines only reach a small portion of their target audience's total universe. In setting circulation goals, a new magazine must be aware of how large this total universe is and have expectations that are well within this size.
- *Strong distribution channels to attain that circulation.* Any magazine needs reliable distribution that can get copies of the publication to the right readers at a reasonable cost. It is particularly important for a new magazine to have a distributor that can get it visibility at the right newsstands. The magazine circulation department must be able to generate the right proportion of subscriptions among people in the magazine's demographic target.
- *An experienced and talented staff, particularly the publisher and editor.* For the best chance of success, the publisher should have experience with new magazines or with other magazines that are similar in content and/or target. At a minimum, the publisher should be entrepreneurial. The editor should be adept at producing a good product for the reader.
- *Pricing (both cover price and ad rates) that is in line with competitors.* If a new magazine's cover price or CPM's are too high, advertisers and readers will not buy it.

The accent in recent launches from the likes of Time and Conde Nast is on reshaping acquired books rather than starting new ones from scratch.

The accompanying chart illustrates the major launches of the past decade, about half of which have survived.

There was a great deal of activity in new magazines last year. However, many of the concepts in test were cancelled, and publishers such as Time Inc. and Conde Nast shifted their em-

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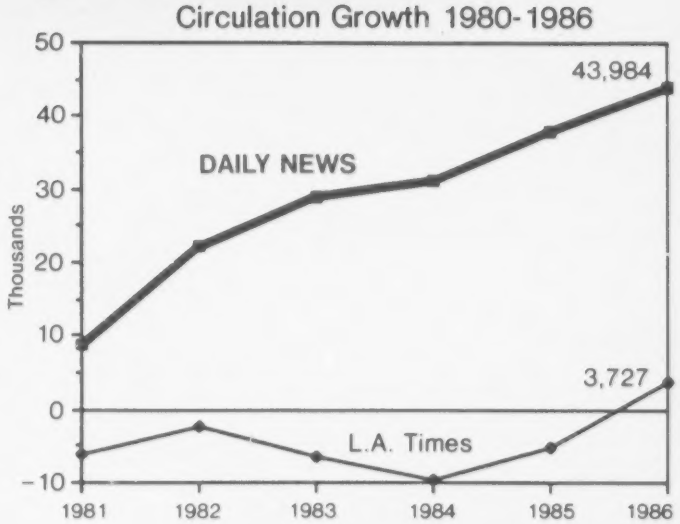

* Number represents circulation growth in Daily News market only (in northern Los Angeles and southern Ventura counties). Daily News total circulation is 153,000 daily, 165,000 Sunday. Source VAC Reports 1980; ABC Audit Reports 1981-1986.

phasis to acquiring titles.

Time Inc. had the most new-magazine and acquisition activity recently. Last October, the publishing conglomerate acquired *Women's Sports and Fitness*. The following month, Time Inc. strengthened its foothold in the women's market by entering into a joint venture with *Working Woman* to purchase McCall Publishing. The deal includes *McCall's, Working Mother, Working Mothers Digest, Baby!* and several special-interest titles. In addition, if the deal goes well, there is a possibility Time Inc. will buy out *Working Woman*'s share, and *Working Woman* too.

While Time Inc. was making inroads in the women's market, Hearst was expanding its interest in the men's by buying *Esquire*. The monthly will fill the void left by Hearst's folding of *Science Digest* last summer and may become the kingpin of an upscale men's package to be offered to advertisers. Current plans are to "refocus" editorial to appeal to a slightly older audience.

Conde Nast became a presence in the travel market with its buy of *Signature*. The monthly will be renamed *Conde Nast Traveler* starting with the September issue. The editorial is becoming more upscale and circulation acquisition will be expanded to include newsstand sales.

Reader's Digest is also getting into the travel field. In its first U.S. magazine buy, *Reader's Digest* is acquiring *Travel/Holiday*. The monthly's purchase is part of *Reader's Digest*'s "strategic plan" for future growth.

With all this acquisition activity, look for 1987 to be a year of new "pre-existing" magazines with many of the same problems faced by new (from scratch) publications. ■

MAJOR NEW MAGAZINES OF THE PAST TEN YEARS

Year Launched	Magazine	Publisher	Current Status	12/86 Circ.* (000's)
1977	*Games*	Playboy (now PSC)	Uncertain	562
	Omni	Penthouse	Stable	858
1978	*Country Living*	Hearst	Growing	1,619
	Food & Wine	American Express	Stable	713
	Life (revived)	Time Inc.	Stable	1,719
	Self	Conde Nast	Growing	1,090
	Venture	Venture	Stable	330
	Working Mother	McCall's	Stable	555
1979	*Geo*	Gruner & Jahn (also Knapp)	Gone	n/a
	Inc.	Inc.	Growing	607
	Savvy	Savvy	Stable	356
	Science '79	Amer. Assoc. for the Advancement of Science	Gone	n/a
1980	*Country Home*	Meredith	Growing	828
	Discover	Time Inc. (now Family Media)	In flux	1,329
	Families	Reader's Digest	Gone	n/a
	inside Sports	Newsweek (now Century)	Stable	411
	New Shelter (now Practical Homeowner)	Rodale	In flux	708
	Next	Litton	Gone	n/a
	Panorama	Triangle	Gone	n/a
	Science Digest	Hearst	Gone	n/a
	American Health	American Health	Growing	795
1981	*High Technology*	High Technology Pub	Stable	290
	Home	Knapp	Growing	809
	Technology Illustrated	High Technology Pub	Gone	n/a
1982	*Spring*	Rodale	Gone	n/a
1983	*Family Computing*	Scholastic	Growing	431
	TV/Cable Week	Time Inc.	Gone	n/a
	Vanity Fair	Conde Nast	In flux	418
1984	*Nat. Geo. Traveler*	National Geographic	Growing	848
1985	*Elle*	Hachette	Growing	603
	New Look	Penthouse	Gone	n/a
	Spin	Penthouse	Stable	150
	Picture Week	Time Inc.	Gone	n/a
	Good Food (revived)	Triangle	In flux	952
1986	*Midwest Living*	Meredith	Too soon to tell	400*
	Parenting	Time/Wolaner	Uncertain	200*
	Taxi	Taxi	Too soon to tell	350*
	Child	Taxi (now New York Times)	Too soon to tell	200*
1987	*Cooking Light*	Southern Progress (Time Inc.)	Too soon to tell	450*

Source: Audit Bureau of Circulations; asterisks note rate bases.

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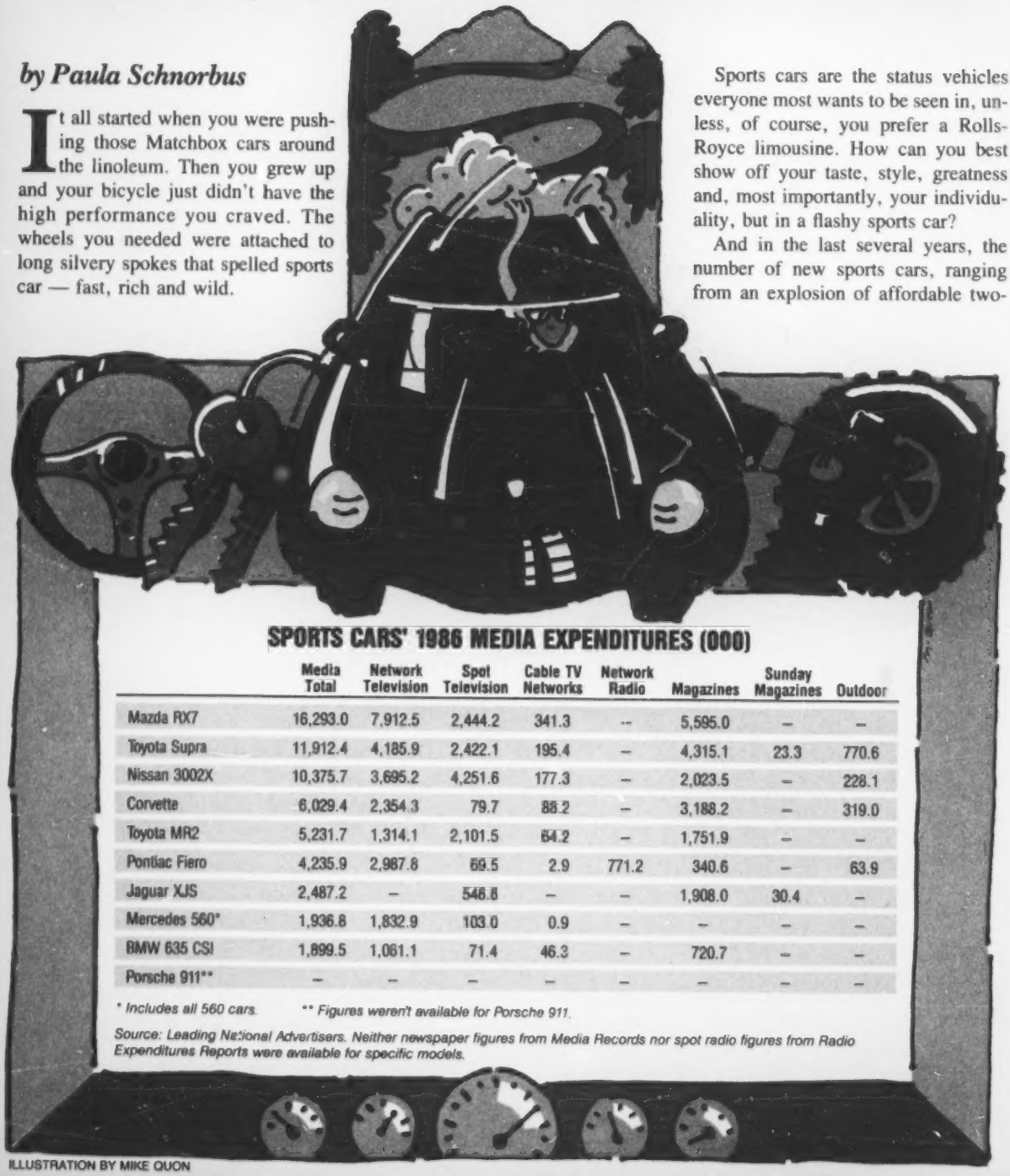
BRAND REPORT

No. 144: Sports Cars

THE NOT-SO-FAST LANE

by Paula Schnorbus

It all started when you were pushing those Matchbox cars around the linoleum. Then you grew up and your bicycle just didn't have the high performance you craved. The wheels you needed were attached to long silvery spokes that spelled sports car — fast, rich and wild.



Sports cars are the status vehicles everyone most wants to be seen in, unless, of course, you prefer a Rolls-Royce limousine. How can you best show off your taste, style, greatness and, most importantly, your individuality, but in a flashy sports car?

And in the last several years, the number of new sports cars, ranging from an explosion of affordable two-

SPORTS CARS' 1986 MEDIA EXPENDITURES (000)

	Media Total	Network Television	Spot Television	Cable TV Networks	Network Radio	Magazines	Sunday Magazines	Outdoor
Mazda RX7	16,293.0	7,912.5	2,444.2	341.3	--	5,595.0	–	–
Toyota Supra	11,912.4	4,185.9	2,422.1	195.4	–	4,315.1	23.3	770.6
Nissan 3002X	10,375.7	3,695.2	4,251.6	177.3	–	2,023.5	–	228.1
Corvette	6,029.4	2,354.3	79.7	88.2	–	3,188.2	–	319.0
Toyota MR2	5,231.7	1,314.1	2,101.5	54.2	–	1,751.9	–	–
Pontiac Fiero	4,235.9	2,987.8	69.5	2.9	771.2	340.6	–	63.9
Jaguar XJS	2,487.2	–	546.8	–	–	1,908.0	30.4	–
Mercedes 560*	1,936.8	1,832.9	103.0	0.9	–	–	–	–
BMW 635 CSI	1,899.5	1,061.1	71.4	46.3	–	720.7	–	–
Porsche 911**	–	–	–	–	–	–	–	–

** Includes all 560 cars.* *** Figures weren't available for Porsche 911.*

Source: Leading National Advertisers. Neither newspaper figures from Media Records nor spot radio figures from Radio Expenditures Reports were available for specific models.

ILLUSTRATION BY MIKE QUON

After 15 years of building the most successful sports car in history, Professor Porsche declared "We have reached the end."
But that was only the beginning.

The Porsche 911 was advertised last May after some thought the car had been dropped.

seaters to turbo-charged models, has been accelerating. The growth has been fueled by the 80 million people who are now in the post-war, high-expectation generation, says Arvid Jouppi, senior vice president and auto analyst with Keane Securities Co. "Sports cars are fun, and this generation is a rich market for it. People who don't have the trauma of the Depression in their psyche, they buy high," he says.

Still, in 1986, sports cars and luxury sports models accounted for a mere 2.4% and 0.6%, respectively, of the entire auto market, according to J.D. Power & Associates, a Westlake Village, Calif.-based automobile information company. The sports car industry is estimated to have been about $6 billion in 1986, and it isn't expected to race ahead anytime soon. In fact, John H. Hammond Jr., managing partner and auto analyst at Power, reports that sports cars are "having a tough time." He finds that sales are picking up, but from extremely low levels earlier this year. He expects sales may be bolstered by a strengthened economy, lower gas prices and incentive campaigns.

Sheldon Payne, corporate product development manager at Nissan, adds that the overabundance of new sports cars may be flooding themselves out. He says that "really fierce competition" has stolen sales from Nissan's 300 ZX. While 60,000 are usually sold yearly, the number dropped to 53,000 last year, and Nissan "hopes" to sell 46,000 in 1987.

Further contributing to sluggish sales has been the strength of foreign currency against the dollar. For example, Toyota's prices have risen 21% since September 1985, a spokesman says. But Jan Olson, Toyota's national manager, advertising strategy and media, notes that although performance car sales are flat, Toyota, like its rivals, doesn't want to be a volume leader but a sports car leader.

Luxury sports cars, like their plush seating, seem to be cushioned against any really soft sales. Why? "Those buyers are insulated from adversities," says Hammond.

Sports cars have had quite an evolution in the last 20 years as strict federal regulations on emissions control and crash testing requirements cracked down on auto makers. British sports cars such as the MG and the Triumph took a beating. "It became less and less economical to sell the cars in this country," says Bill Lovell, senior editor of *AutoWeek*. "The MG was the classic example of changing the bumper height to meet federal standards. It became hideous."

Around that time, says Payne, "the Japanese, or Nissan, being the opportunists they are, saw that the market would like a reliable, low-priced sports car." Hence, the Datsun 240Z came down the pike in the fall of 1969. (Datsun later changed its name to Nissan.) Lovell calls the 240Z "a historically very important car," with more power and a more modern chassis. The car was followed by the 260Z and the 280Z.

The Mazda RX-7 pulled up in 1977 to fill the gap the Datsun 280Z left when it went upscale, says Mazda Motors of America (Central) Inc. marketing vice president Duane Bowen.

The RX-7 itself began hiking up its price and now sells to the tune of $15,199. In recent years, affordable two-seaters, such as Toyota MR2 and Pontiac Fiero, have hit the showrooms, and, in its first year, Fiero, which was introduced not as a sports car but a commuter car, had the biggest number of units sold in 1986. In 1984, its first year, it couldn't keep up with demand. Industry observers say consumers finally realized it wasn't a true sports car, but Pontiac has been working on pepped up versions to remedy that. Two-seater target audiences include families who want a second car and yuppies with disposable income.

Sports cars are advertised largely in car buff magazines and anything from newsweeklies to cultural publications and on network and spot tv. While the average sports car maker doesn't spend bags of money on advertising, the luxury models are barely advertised at all except in enthusiast and upscale magazines and the newsweekly editions that are delivered to the affluent. Marketing managers tend to smugly agree that their cars are so well-known they don't need to be advertised.

Advertising particularly disturbs

Gerhard Blendstrup, Porsche's vice president, marketing. The company recently started spotlighting Porsche 911 in its ads after some thought it had been dropped from the line, he explains. "I think Porsche shouldn't be advertised," reasons Blendstrup. "You don't advertise a love affair. You can talk about it, but not advertise it."

Following is a list of the biggest selling units of sports cars and luxury models and their market shares based on 1986 figures from J.D. Power. Pontiac Fiero was the number-one seller, with 68,340 sold and a 24.6% market share; Mazda RX-7, 56,203, 20.2% market share; Nissan 300 ZX, 52,936, 19% market share; Toyota Supra, 33,823, 12.2% market share; and Toyota MR2, 28,851, 10.4% market share.

Corvette tops off the luxury sports car list with 33,027 sold and a 50.8% market share; Mercedes 560 SL sold 12,565 and had a 19.3% market share; Porsche 911 (not including the 911 Turbo) 6,699, 10.3% market share; Jaguar XJ-S, 4,885, 7.5% market share; and BMW 635 CSI, 2,978, 4.6% market share.

Fiero wasn't a sports car initially but a commuter car.

Pontiac Fiero

Pontiac's two-seater, which easily heads J.D. Power's biggest selling sports car list in 1986, was first marketed in model year 1984 as a commuter car.

Sam Slaughter, Fiero marketing specialist, explains that the car was pitched to both men and women who were in their late 20's, or about 28 years of age. Average household income, which may have included two incomes, was $41,000.

By 1985, the age of the target audience increased to 30, and income rose to $43,400 for the new Fiero GT. A V-6 engine was introduced. "We started to break away to get more of a sports enthusiast," says Slaughter. About 70% of the target audience was under 35 in 1984. By 1985, the GT strategy brought the share to 64%. In 1986, the targeted annual household income rose to $47,600.

The new Fiero Formula, formerly an SE, will be introduced this fall. "It will be geared to a buyer who is interested in a sports car with acceleration and excellent handling, but who isn't able or old enough to buy a GT," says Slaughter, who notes that the SE was discontinued. "There was no niche for a luxurious Fiero." The Formula also will be pitched to both sexes.

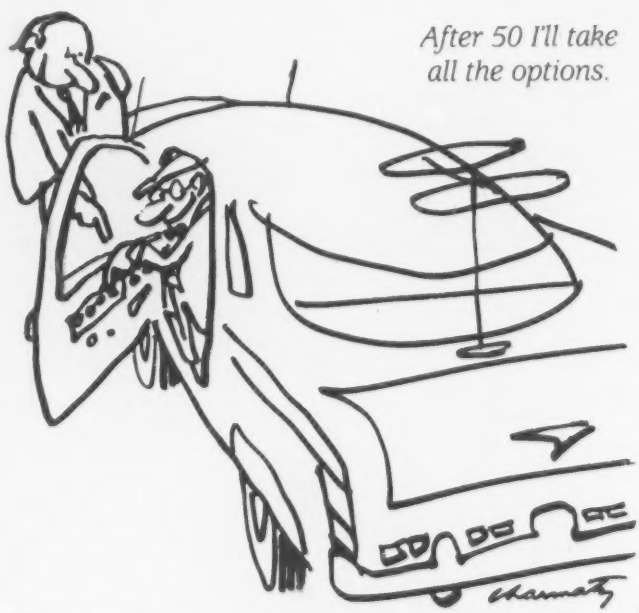
All Fiero models will be completely redesigned with new suspension systems. Slaughter says the base car will be "more supple and easy to drive." The GT will be "more aggressive."

A multi-line strategy will be used to advertise Pontiac's range of small, sporty cars in one fell swoop. Ads by D'Arcy, Masius, Benton & Bowles, Bloomfield Hills, Mich., may appear on *L.A. Law* and *Late Night with David Letterman*. Fiero is getting more involved with the college market. The reasoning is that the Fiero will be attractive as a first-car buy. Fiero's base price in 1984 was $7,999, and by 1987, it rose to $8,299. "If we can sell them a Fiero, that's great, but maybe they'll buy some other Pontiac, which is another objective," Slaughter says.

In 1986, LNA reports that Fiero had $4.2 million in ad expenditures, mostly in network tv and network radio.

Mazda RX-7

Mazda RX-7's rotary engine began whirring 10 years ago when the company saw a hole in the sports car market after Datsun's 280 ZX "moved upscale a little bit," explains Duane Bowen, vice president, marketing.



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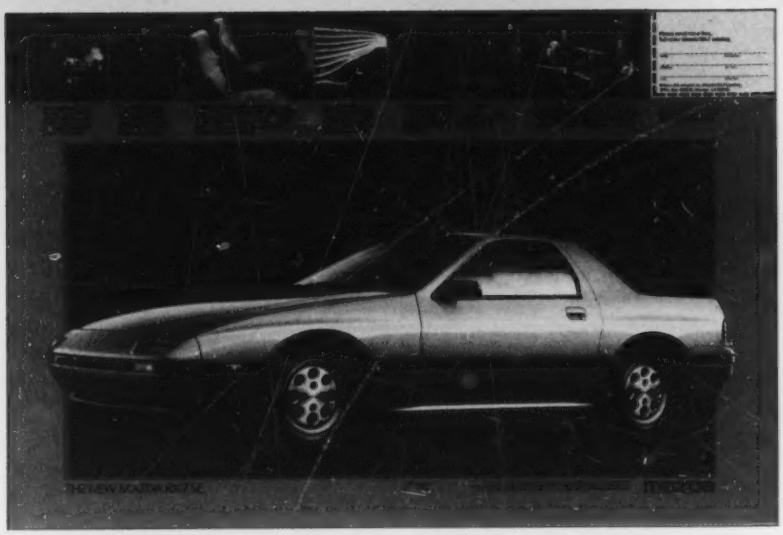
The target audience initially included both men and women, but as the RX-7's price steadily rose and its body became "more classical, or a true sports car," the percentage of women driving the car dropped to 36% in 1986 from 50% two years earlier. "It's not something we intended to do," says Bowen. The RX-7 is being marketed to professional or college-graduated men 25 to 44 years old with a household income of $40,000 plus. The car's price ranges from $15,199 to $27,999.

RX-7's media mix is 70% broadcast and 30% print. The 30-second tv spots can be seen on sports events such as NFL football and NCAA basketball and weekend news shows. Ads are heaviest in car enthusiast magazines, but the RX-7 also may be seen in newsweeklies as well as *USA Today*. Dealers and salespeople may win free vacation trips through special incentives. Radio and outdoor aren't used on a national basis, although dealers may use them, says Bowen. Billboards are harder to get, he says, as their numbers shrink in key markets.



Mazda RX-7 didn't intend to lose its appeal to women.

Mazda hasn't scrimped on advertising dollars. According to LNA, it spent the most in 1986 of the 10 cars listed in this report. Almost $8 million was spent on network tv with $5.6 million on magazines and lesser amounts on spot and cable tv, all of which add up to $16.3 million. Foote, Cone & Belding, Santa Ana, Calif., is the agency.

Nissan 300 ZX

Eighteen years ago, the Datsun 240Z had a sticker price of $4,000. A few engine displacements later, the least expensive Nissan 300 ZX currently is being sold at $19,000, and, with leather trim, the price can soar to

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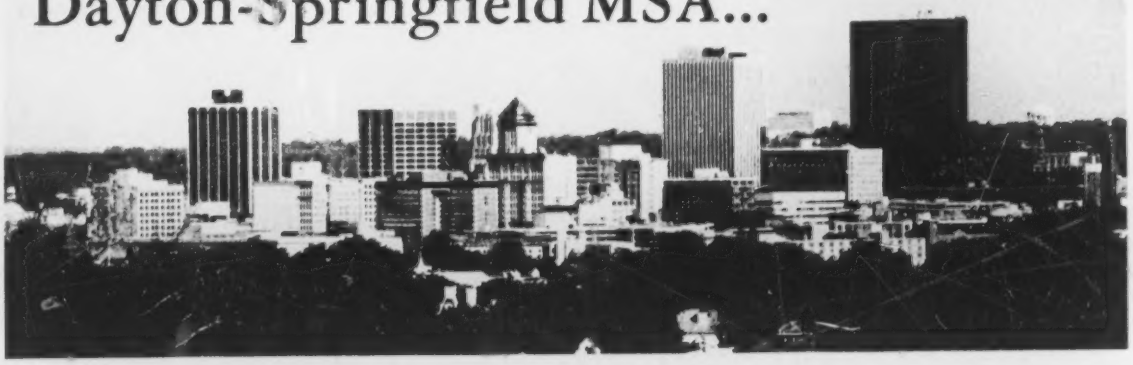

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The 300 ZX has risen to $19,000 from the 240Z's original $4,000.

$26,000. (The price of Nissan's entire line of cars has risen several times, most recently twice this spring because of the strong Japanese yen).

The original Z car came at a time when the market was wide open for a reliable, low-priced sports car, says Sheldon Payne, corporate product development manager. Federal regulations made styling a challenge, says Payne, citing emission regulations and bumper standards.

Nissan also designed a bigger interior to accommodate bigger American drivers. Ninety percent of the Nissans produced are sold in this country.

Today, sports car buyers are more performance-oriented than ever. "Now it's a driving experience more than a necessity," says Payne.

The biggest buyers of the 300 ZX are young couples and single males with annual household incomes of $30,000 to $50,000. Payne also notes there are some lower-income singles; two-income couples that make less than $30,000 a year; and high-income females. All told, the car is predominantly purchased by males.

Nissan's flagship car is advertised in upscale and men's magazines such as the newsweeklies, *Playbill* and *Omni*. Thirty-second spots have appeared on *Monday Night Football* and *Miami Vice*, and 60-second spot radio commercials and 30-second network radio ads have aired. Nissan also sponsors sports events, including the games of the Baltimore Orioles and the New York Rangers. Outdoor advertising is heavy in Los Angeles and San Francisco. The 300 ZX's ads also appear on cable tv's *Nashville Network*. The *Wall Street Journal* and local newspapers in special markets are used. LNA reports that in 1986, about $10.4 million was spent on ad expenditures, most of which were in network and spot tv advertising, with $2 million in magazines. Terence Foutz, national car advertising manager of Nissan, wouldn't comment on LNA's figures except to say that Nissan's budget hasn't changed much from last year.

After some eight years, William Esty recently was dropped because of dissatisfaction with the agency's creative, which was "inconsistent . . . sometimes brilliant, sometimes not all that good," a Nissan spokesman says. A new agency hadn't been announced at press time.

Toyota Supra

Supra started as a hybrid of the Celica in 1979. But as the continuing evolution of sports cars thundered along, Toyota wasn't about to be left in the dust. It launched a redesigned sports car category with the Supra for the 1986 model year.

Jan Olson, national manager, advertising strategy and media, says that those who covet a high-performance engine "want to feel that they are above it all in driving their car; they want the true race car attributes but something they can drive."

The Supra, which currently has a $20,890 base price, was designed for a 70% male target audience with a median age of 34 and median income of $53,000. Half of those men will be married; 85% of them have attended or graduated from college; and 66% of them are professionals. They are "men who have arrived and can afford" to buy a Supra.

The target audience isn't much of a tv audience, so print advertising is favored. In addition to the enthusiast books, Supra can be found nationally in *Black Enterprise* and also in *Playboy*, for example. When the car was launched, national tv and pre-screen advertising in movie theaters were used as well as outdoor advertising.

LNA reports that in 1986 Toyota spent about $4 million each on network tv and magazines and almost $2.5 million on spot tv with the rest in cable tv, Sunday magazines and outdoor, adding up to almost $12 million.

New creative will be out in October, lumping all of Toyota's performance cars — those that are specialty vehicles and not high in volume sales — together in a multi-unit creative execution. Saatchi & Saatchi DFS Compton is the agency.

Toyota MR2

Toyota likes to think of the MR2 as a lower-priced version of the Supra, says Olson. The enthusiast books don't go that far but *Car & Driver* admitted earlier this year that the MR2 "has never wanted for compliments," and *Road & Track* called it "an ideal runabout and a super-economical but noisy cruiser." And this fall, the MR2 reportedly will roar with a new supercharged, higher performance engine.

The MR2, with its base price of $12,848, is different from most other sports cars because it goes after women as well as men. Its buyers make "a little less income but still want the image of a little sporty car," says Olson. Above all, it is a "fun car." The drivers are split down the middle, 50-50 men-to-women, with a median age of 30 and income of $46,000. Almost half are married, and 83% attended or graduated college, while 59% could be la-

Toyota MR2 loves to call itself the "fun car."

beled "professionals."

Although Olson says its best advertising comes from the praise of enthusiast magazine writers, the car does pay for some advertising in *Playboy*, *Cosmopolitan*, *Tennis* and *Rolling Stone*. A tv commercial has been running during sports events.

Olson notes that ads in enthusiast books for both Supra and MR2 are technically oriented, while magazines such as *Rolling Stone* review the cars' basic performance data.

Olson wouldn't comment on ad expenditures for either the Supra or the MR2, but LNA says Toyota spent about $5 million on MR2's tv and magazine advertising.

Corvette sells because of "image and word-of-mouth."

LUXURY SPORTS CARS

Corvette

The next time you're watching a tv detective show, check out the hero's crime-fighting machine. And don't bother looking at the villain's. He won't be cruising in a Corvette.

"The shows ask permission to use them. If a program is suitable, we let them borrow the car. We don't want a drug smuggler in the car," explains Tom Mason, marketing manager for passenger cars.

Corvette has undergone modifications since its birth in 1953, but it has always remained a two-seat, high-performance sports car. The current design was introduced in 1984, and the latest changes were the addition of anti-skid braking, a Bose radio system and a clamshell hood that opens from the front, to name a few. Although it sells from $25,000 to $32,000, it competes with cars such as Porsche and Ferrari that may be double the price.

The car has been what one might call a symbol of maleness. The current breed of male purchasers — 89% of Corvettes are bought by men — ranges from age 34 to 46 with a median age of 38. About 73% have annual household incomes of more than $45,000 a year. In most cases, says Mason, the owner is single, and the Corvette is his only car. (Check and see what's parked in your doctor's driveway.)

Corvette had a tv campaign in 1985, but since then has been concentrating on print, especially the buff magazines that appeal to upscale professionals, Mason says. Occasionally, ads may be seen in non-automotive magazines such as *Esquire*. "Corvette sells because of image and word of mouth," Mason observes. "We feel that the scatter of network or cable is not effective for reaching our target market." Even Corvette's print campaign by Campbell-Ewald was limited for the 1987 model year because "demand was so high for the product." Mason says the ad budget, which he wouldn't reveal, will probably be higher this fall because of inflationary factors.

LNA says Corvette had about $6

"Listen, Mac, it's like this every day in Orange County when the stock market's closing prices are announced."

Over 29% of Orange County residents own stock and the county has California's highest percentage of mutual stock ownership (Source: New York Stock Exchange).

THE ORANGE COUNTY Register METROGROUP

The leading medium in Southern California's richest market. Represented by CWO&O

million in ad expenditures in 1986 split between tv and magazine ads.

Mercedes-Benz 560 SL

Car seats have evolved from sticky vinyl to plushy velour. If you're still not comfortable, the Mercedes-Benz 560 SL has heated its leather seats, which incidentally are the only option at $465 extra, small change for a nearly $60,000 car.

Mercedes-Benz has had a luxury sports car in its lineup for decades. The 560 SL debuted in the fall of 1985.

Hans Jordan, vice president, marketing, says, "It does not make overall sense to advertise this car . . . it has a very broad level of recognition without advertising. Anyone who is a prospect for this automobile knows the car."

Those who do know the car comprise a small audience, because the car "is not for everybody," says Jordan, stating the obvious. The average age of an SL driver is 45, with an average income of $150,000; 29% of its drivers are females; and 65% of SL drivers are university graduates.

McCaffrey & McCall handles the advertising, which is mostly found in newspapers in 20 markets. Papers include the *New York Times* and the *Wall Street Journal*, the *Philadelphia Inquirer* and the *Boston Globe*. Magazines aren't currently used, and radio isn't for specific models but is bought to describe the ownership experience for the entire Mercedes-Benz line. A 30-second tv commercial appeared on network and spot tv last year during the late news, the NFL football schedule and some prime-time shows.

Jordan wouldn't comment on the budget, but LNA says that in 1986, Mercedes-Benz spent almost $2 million on all of its 560 cars. Most of the ad expenditures were in network tv.

Porsche 911

This car was so underadvertised until recently that some people thought Porsche discontinued it.

Because of the confusion, last May, the 911 began running in three-page inserts in enthusiast magazines, upscale business magazines and the newsweeklies' that target the wealthy. The *New Yorker* and *Travel & Leisure* are also used. In the past, the 911 had been used in ads to position other Porsches.

In addition, Porsche is currently hustling a direct-mail campaign using a three-page insert designed by Chiat/Day. About 100,000 homes with household income of $70,000-plus are being targeted. The audience is being invited to their local dealers for test drives. And this fall, tv ads are planned for top metropolitan areas during the evening news, *60 Minutes*, the U.S. Open tennis championship and prime-time shows.

Not stopping there, Porsche also recently invited 15 to 20 "successful women" to come to California's Napa Valley and experience the 911 and other Porsche models. "We wanted to break down the perception that it is a tough car to drive," explains Gerhard Blendstrup, vice president, marketing, who also wanted to kill the macho myth. "It is designed to be easy and fun to drive." The target audience has been 85% male and mostly lawyers, doctors and small business owners — not many corporate types — with an

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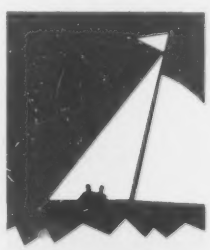

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FCD
one order / one bill / at a discount
At home with irresistible wealth

FCD: The Bridgeport Post-Telegram, Danbury News-Times, Greenwich Time, The Hour (Norwalk), The Advocate (Stamford)

age range of 35 to 42 and an income of $70,000. Women's books haven't carried advertisements because Porsche felt that women buy the car for the same reasons men do, and successful women read similar publications such as *Business Week* and *Forbes* as well, though not the enthusiast magazines, says Blendstrup.

The 911 was rolled out of Frankfurt 24 years ago, and it hasn't changed much of its interior or exterior design. "It is a dream car," sighs Blendstrup, adding that high-school students dreamt about buying it, hence the average age group of 35-to-42-year-olds who purchase the 911. The lower-selling coupe starts at $41,440 while the 911 turbo goes for $63,295.

Blendstrup says the ad budget had obviously been very low compared to now, although he wouldn't elaborate on dollars being spent. "In the past, we could live without advertising the 911," says Blendstrup, who says sales are "doing quite well."

Jaguar XJ-S

Jaguar refers to its XJ-S as a "grand touring car" rather than a sports car. "Detroit has blurred these definitions by calling almost anything a sports car," growls Allen Taylor, advertising manager.

The XJ-S hit the market in 1975, about the same time the "true sports car," the E-type of Jaguar, left the market. Not only was the definition of a sports car blurry, but so was that of a grand touring car. Bob Burden, vice president, marketing services, says the Pontiac GTO had already been billed as a grand touring car, thus the "domestic car advertising had blurred it."

Jaguar XJ-S is called a "grand touring car."

The XJ-S initially was presented to the public and allowed to find its own position. "But now we are confident that people understand what grand touring is all about," says Burden, who explains that a grand touring car has "long legs and is quiet and comfortable so it absorbs the bumps."

The median age of an XJ-S driver is in the high 40's and trending upward. The drivers are 64% male and 36% female, a percentage that has remained fairly constant since 1982. Annual household income is in excess of $150,000 for the cars that range from about $50,000 to a high of about $60,000 for those who want to convert their coupe into a convertible. A new model with minor mechanical but significant body changes is expected for the first half of 1988.

Geer DuBois handles the advertising, which is currently 100% print. Newsweeklies are used but only those that are distributed to executives, the affluent and/or upscale. Other magazines used are *Architectural Digest*, *Gourmet* and boating and horsebreeding books. A co-op program for ads in the *Wall Street Journal*, for example, allows Jaguar to run dealer lists representative of geographic regions.

LNA reports that in 1986 about $2.5 million was spent on advertising, most of which was in magazines. Taylor said the figure is a little high and probably includes some co-op advertising.

BMW 635 CSI

The BMW 635 CSI, which debuted in 1977, made the top five selling units on J.D. Power's list in 1986, a seemingly nice way to end its career. Now the 6 series is being represented by the L6, the luxury model, and the M6, the high performance model.

BMW buyers had better hurry: The CSI sold for only $46,965 base price while the L6 goes for $49,500 and the M6 lists for $56,000. Needless to say, the heavily male target audience makes more than $100,000 a year. George Hartley, manager, marketing communications, describes buyers as "entrepreneurial people. (The BMW) appeals to a lot of self-made people because of its symbol. It visually is a striking car that makes a strong statement."

Ads are in very upscale lifestyle magazines such as *Connoisseur* and *Art & Antiques*. In the past, some tv ads were used on "very selected programing," but now other BMW models are advertised on television. The 6 series doesn't appear in newspapers either. "We're looking for a particular environment. In particular, the reproduction quality and environment of a newspaper aren't consistent with the image we're trying to project with the car," says Hartley, who said lower-priced BMW's may be seen in newspaper ads.

He also said the ad budget has increased for the other models but not the low-product volume 6 series. New creative is currently being developed by Ammirati & Puris for the L6 and M6. The ads will break Sept. 1.

Hartley says LNA's estimate of $1.9 million in ad expenditures last year is "about right." ■

Northern New England's Largest daily Newspaper

211,000 Readers Weekends

166,000 Readers Daily

Contact your Sawyer-Ferguson-Walker representative or call Roger Choquet at 1-207-942-4881

Bangor Daily News
The Maine Choice

Source: Belden Associates, Dallas, Texas, Oct.-Nov. 1984.

ECONOMIC EYE

OUR TV TANGLE

In the process of updating procedures for collecting and reporting network and spot tv cost data, the prime-time and daytime reporting lines on the chart were inadvertently transposed.

This month, the chart has been revised to correct this oversight. Please make a note of the revisions.

MAGAZINE AD SCORECARD

	Ad Pages June 1987	% change from June 1986	Dollars spent (000)	% change from June 1986
1. Skin Care, Creams, Lotions and Oils	112.86	+9.9%	$ 4,174.6	+62.8%
2. Lip and Eye Beauty Products	80.66	+103.9	2,694.0	+57.1
3. Scents and Fragrances	111.8	+48.1	3,778.7	+60.0
4. Facial Makeup Products	42.33	−32.4	1,475.2	−40.6
5. Prepared Dinners and Entrees (including Pizza)	26.76	+42.5	1,880.0	+107.4
6. Liquor	39.44	−17.0	1,722.0	−11.6
7. Cigarettes	568.51	−6.5	2,967.4	−13.0
8. Soaps and Detergents	54.01	−21.6	3,275.6	−24.6
9. Passenger Cars, Domestic	418.35	+2.1	1,872.7	−9.5
10. Passenger Cars, Imported	529.30	+25.6	2,580.1	+30.4

Source: Publishers Information Bureau as prepared by Leading National Advertisers

MEDIA COST INDEX

1985 = 100

	1986 Sept.	% change	Oct.	% change	Nov.	% change	Dec.	% change	1987 Jan.	% change	Feb.	% change	Mar.	% change	Apr.	% change
Network TV*																
Daytime	102	+2	103	+3	98	−2	85	−15	92	−9	86	−9	88	−8	92	−6
Nighttime	107	+7	104	+4	107	+7	109	+9	106	+0	105	+8	112	+7	99	+8
Spot TV*																
Prime time	105	+5	119	+19	115	+15	116	+16	129	+7	133	+11	131	+13	–	–
Daytime	99	−1	109	+9	111	+11	105	+5	130	+5	108	−0	108	−0	–	–
Network radio	104	+4	115	+15	106	+6	101	+1	139	+14	130	+12	126	+11	116	+4
Spot radio	←		←		103	+3	→		←		101	+1	→		–	–
Consumer magazines	106	+6	106	+6	106	+6	107	+7	109	+4	109	+3	110	+4	109	+3
Natl. Sunday mags	105	+5	94	−6	94	−6	94	−6	103	+11	103	+11	103	+11	103	+11
Business publications	106	+6	106	+6	107	+7	107	+7	111	+5	111	+5	111	+5	111	+5
Newspapers	108	+8	108	+8	109	+9	109	+9	116	+8	116	+8	116	+8	116	+8
Outdoor	111	+11	106	+6	106	+6	106	+6	111	+6	111	+6	111	+6	114	+6

Notes: Percentage shown is relative change from the same month/period the year before.

1985 = 100 *1987 Columns for daytime and nighttime elements were transposed in previous issues. Please update files.

Sources:

Nighttime Network TV—Cost per average 30-second spot, 7:30-11 p.m. Monday-Saturday and 7-11 p.m. Sunday from Broadcast Advertisers Reports' (BAR) Network TV Service.

Daytime Network TV—Cost per average 30-second spot, 10 a.m.-4:30 p.m. Monday-Friday from BAR's Network TV Service.

Network Radio—Cost per average 30-second radio announcement from BAR's Network Radio Service.

Consumer Magazines estimate based on reported SRDS cost of a page, four-color in 40 national consumer magazines, as reported by Magazine Publishers Assn.

National Sunday Mags estimate based on published (rate cards) costs of a page, four-color in the national entries.

Daily Newspapers estimate based on Newspaper Advertising Bureau report of SRDS costs per column inch of a sample of 784 newspapers weighted to represent the universe.

Outdoor Posters based on estimate prepared by Institute of Outdoor Advertising.

Spot Radio index represents cost of a 60-second spot in the top 100 markets from data supplied to Radio Expenditure Reports by major radio representatives.

Business Publications estimate based on reported SRDS cost of a page, four-color in 48 publications representing 42 business and professional classifications.

POINT/COUNTERPOINT/

TARGET: THE RATE CARD

SET THE FOX FREE

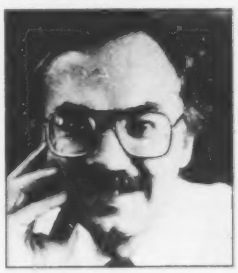
Magazine negotiation will help the publishing industry by allowing free-market forces to determine the value of space in a particular magazine. Good magazines will flourish and bad magazines will perish — as they should when the market is the sole arbiter of success or failure.

At the same time, agencies will have to revise the way print planning is conducted as well as negotiated in order to provide optimal client benefit. The end result will dictate increased agency profit margin pressure since more time and expertise will be needed to handle print negotiation. Translation: more media people and a premium paid for negotiation expertise.

Advertising agencies have paid different prices for commercial units in the same tv show on the same air date for years. Why should magazines be different? Historically, the higher rated shows, such as *The Cosby Show*, *Family Ties*, or those that have programing/editorial cachet such as *Moonlighting* and *Cheers*, have commanded premiums over the daypart norm.

This will hold true within the magazine industry as well. An advertiser will be willing to pay rate card to place his upscale fragrance advertising in *Elle*, but may be less willing to run a page at rate card in *McCall's*. However, at a certain price, the *McCall's* page becomes more palatable and at some point in negotiation makes the schedule. What better for *McCall's* or any other title than an opportunity to generate additional revenues at less than rate card (but still firmly in the black)? How do you think the networks have been able to get advertisers in poor or marginal shows for all these years? Make the price attractive enough given the product you're selling and you've got a sale.

It should be apparent that those magazines that have little competitive differentiation in the way of circulation, demographics or editorial ambiance are the ones that better be prepared to negotiate. Once the market forces are allowed to operate fully, the magazines that are pro-active such as *McCall's* will reap the rewards of incremental revenues while those that refuse to play the negotiation marketplace will ultimately lose enough revenues to perish. The strong print vehicles and those with better sales staffs will get stronger and be able to invest in a better product for the consumer and ultimately the advertiser's benefit. The market will dictate failure and the industry will consolidate from its current, severely over-fragmented state.



Ultimately, the fallout will be an industry with fewer but stronger magazines available to advertisers. They will provide advertisers with strengthened editorial environment and will be priced competitively with other media and in relation to the overall economy. What could be better?

Bob Zach is vice president and media director of Chiat/Day Inc. in the New York office.

OUR READERS TELL US . . .

Research USA, Chicago, found our agency and advertiser readers are equally divided on the appeal of negotiated rates in magazines.

AGENCIES:
(Base: 84)

1. Will *McCall's* open rate card, the first to put magazine ad rate negotiation on the table, create more client pressure to do deals?

Yes	80.9%
No	17.9%
No answer/don't know	1.2%

2. Will it cause planning to put too much emphasis on prices?

Yes	53.6%
No	45.2%
No answer/don't know	1.2%

3. Do you think other magazines will eventually follow *McCall's* lead?

Yes	85.7%
No	11.9%
No answer/don't know	2.4%

4. Do you want more magazines to adopt a negotiated rate structure?

Yes	51.2%
No	48.8%

ADVERTISERS:
(Base: 54, except where indicated)

1. *McCall's* magazine has recently changed to an open rate card for advertisers, meaning all future ad rates are open to negotiation. Does this make magazine advertising more attractive to you?

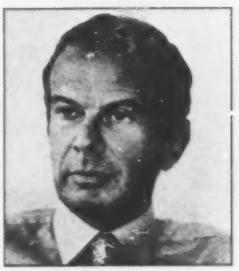
Yes	48.1%
No	50.0%
No answer	1.9%

2. Should multi-brand advertisers consolidate their brands when appropriate

POLL

GUARD THE GOLDEN GOOSE

On May 29, 1987, *McCall's* announced that it was going to openly negotiate its rates. Given the realities of the marketplace as established by the Seven Sisters, *McCall's* did not have a choice. The category had unfortunately gone too far to revert to a fixed rate card position.



After the announcement, the industry's responses included, "It's about time someone has come out of the closet," and, "Negotiated rates by the women's service field is one of the worst kept secrets in our business." The blatant hypocrisy of a public position of no rate negotiations while sales staffs were on the street cutting rates was not in the best interests of the advertising industry.

The question now is where negotiated rates will spread in other, less competitive magazine categories, and how fast. I hope it is limited in scope. Negotiated rates would tend to lower profit margins to a point where magazine quality would suffer. This would impact on the quality of audiences. We will have instituted a never-ending downward spiral in the medium.

There *are* a number of changes that could benefit the magazine medium: circulation rate bases that are not inflated with peripheral sweepstakes subscribers; an offering that is enhanced by added values such as significant promotional opportunities; a rate card that is flexible in terms of marketplace needs, but with every rate available to any advertiser.

But rate negotiations similar to those that have been the practice for tv and radio could, over the long term, seriously impair the magazine's role as one of our leading advertising vehicles. If profit margins decline or become miniscule or non-existent, the quality of the medium will be downgraded in order to increase those margins. It will be reflected in the level of writing, photography, graphics and stock. There is a real possibility that we will have seriously wounded the goose that lays the golden egg.

How far it spreads will depend on the resolve of the leading publishers of selective magazines, such as Time Inc. and Conde Nast, to resist the pressure to deal, as well as the understanding of advertisers and agencies who recognize that it is in their long-term best interests to have a healthy goose and many golden eggs.

Selective magazines are *not* a commodity item. They command a significant premium in terms of cost efficiency when compared to mass publications. Agencies and advertisers accept this premium in return for a quality product that attracts and involves a select audience.

If the quality disappears, then the audience will deteriorate and we will have seriously impaired the advertising effectiveness of a key segment of the magazine medium.

Michael Ephron is executive vice president, media director, of Scali, McCabe, Sloves in New York.

to maximize their clout at the negotiating table?

Yes	90.7%
No	7.4%
Don't know/no answer	1.9%

If "Yes," how should this be accomplished? (Base: 49)

Form negotiating team from various agencies	24.4%
Consolidate accounts at one agency	18.4%
Appoint a corporate negotiator to set rates, then coordinate agency activities	51.0%
Other	10.2%

3. Do you feel agency media planners are qualified to deal with open rates for magazines?

Yes	53.7%
No	46.3%

If "No," what do they need to become qualified? (Base: 25)

More training	32.0%
More supervision	—
Senior-level negotiating team to do the work for them	84.0%
Other	4.0%

4. Rather than an open rate card, should publishers just offer other incentives to advertisers?

Yes	51.8%
No	42.6%
No answer/don't know	5.6%

If "Yes," which do you find most attractive? (Base: 28; multiple answers allowed)

Rate protection	35.7%
CPM protection	28.6%
Merchandising services such as mailings, in-store promotions, trade events or contests	28.6%
Multi-magazine discount packages	46.4%
Lower qualification levels for packages	17.9%